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Confidential (FR) Class III FOMC

May 11, 1994

RECENT DEVELOPMENTS

Prepared for the Federal Open Market Committee
By the staff of the Board of Governors of the Federal Reserve System

DOMESTIC NONFINANCIAL DEVELOPMENTS

The indications from the labor market are that the economy has maintained a strong forward momentum this year, interrupted only briefly by severe winter weather. Average monthly gains in payroll employment during the first four months of the year exceeded the improved fourth-quarter pace, workweeks lengthened, and the unemployment rate continued to move lower. Figures on expenditures have not exhibited comparable strength; subsequent data may eliminate this seeming discrepancy, but it is certainly conceivable that productivity growth slowed markedly after surging in the latter half of 1993. To date, higher interest rates and lower share prices have left little clear imprint on the recovery with the possible exception of a modest effect in the housing market. Wage and price trends have thus far remained favorable despite the tightening of markets--with the exception of industrial and construction materials prices.

Employment and Unemployment

Labor demand has displayed substantial strength this year. After adjustment for Teamsters and other workers on strike, nonfarm payroll employment advanced 341,000 in April, raising the average monthly increase in 1994 to more than 260,000--up from about 200,000 at the end of 1993. The official unemployment rate edged down further last month, to 6.4 percent, and other indicators usually associated with weak labor demand--the number of persons working part time for economic reasons and the proportion of the unemployed who had lost jobs--also fell.

Gains in payroll employment in April were concentrated in three sectors. In two cases--construction and retail eating and drinking places--the sizable increases likely represented rebounds from weather-related weakness earlier in the year. In addition, the

CHANGES IN EMPLOYMENT[1]
(Thousands of employees; based on seasonally adjusted data)

	1993	1993 Q3	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.	1994 Apr.
	----------Average monthly changes-------							
Nonfarm payroll employment[2]	169	134	203	237	-31	278	464	267
Strike-adjusted	169	136	196	237	-31	278	464	341
Private	154	101	192	234	-6	273	434	248
Manufacturing	-15	-24	13	19	31	14	13	3
Durable	-9	-12	18	17	33	10	7	10
Nondurable	-6	-12	-5	3	-2	4	6	-7
Construction	17	6	24	22	-12	-3	82	64
Trade	47	31	43	53	-3	74	89	96
Finance, insurance, real estate	7	9	15	6	-4	10	13	9
Services	99	86	92	123	-26	170	226	146
Health services	25	24	21	28	20	17	48	34
Business services	39	31	54	46	-1	57	83	75
Total government	16	33	11	3	-25	5	30	19
Private nonfarm production workers	142	94	167	220	-25	292	394	220
Manufacturing production workers	-4	-14	22	29	39	29	20	10
Total employment[3]	209	127	364	459	1310	287	-221	301
Nonagricultural	219	106	363	349	1074	228	-256	269
Memo:								
Aggregate hours of private production workers (percent change)	.3	.0	.5	.4	.7	-1.3	1.8	.2
Average workweek (hours)	34.5	34.5	34.5	34.6	34.8	34.2	34.7	34.7
Manufacturing (hours)	41.5	41.4	41.7	41.7	41.8	41.2	42.2	42.2

1. Average change from final month of preceding period to final month of period indicated.
2. Survey of establishments.
3. Survey of households.

SELECTED UNEMPLOYMENT AND LABOR FORCE PARTICIPATION RATES[1]
(Percent; based on seasonally adjusted data)

	1993	1993 Q3	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.	1994 Apr.
Civilian unemployment rate (16 years and older)	6.8	6.7	6.5	6.6	6.7	6.5	6.5	6.4
Teenagers	19.0	18.2	18.3	18.0	18.4	17.9	17.8	19.9
20-24 years old	10.5	10.4	9.7	10.6	11.0	10.0	10.9	9.9
Men, 25 years and older	5.8	5.8	5.5	5.3	5.4	5.4	5.1	5.0
Women, 25 years and older	5.4	5.3	5.3	5.3	5.4	5.1	5.4	5.1
Full-time workers	6.8	6.7	6.4	6.7	6.8	6.6	6.6	6.4
Labor force participation rate	66.2	66.1	66.2	66.6	66.7	66.7	66.6	66.6
Teenagers	51.5	51.5	51.1	52.7	53.3	52.4	52.3	54.0
20-24 years old	77.1	77.0	76.7	77.0	76.2	77.5	77.4	76.7
Men, 25 years and older	76.2	76.2	76.2	76.3	76.5	76.2	76.1	75.9
Women, 25 years and older	57.1	57.1	57.5	58.0	58.0	58.2	58.0	57.9

1. Data for 1994 are not directly comparable with earlier values due to a redesign of the CPS in January 1994.

services industry added 146,000 jobs: more than a third were at personnel supply services firms. In manufacturing, a rise in the number of production workers narrowly exceeded a decline in the number of supervisory workers. Apart from the striking Teamsters, the employment increase in transportation and public utilities also was small.

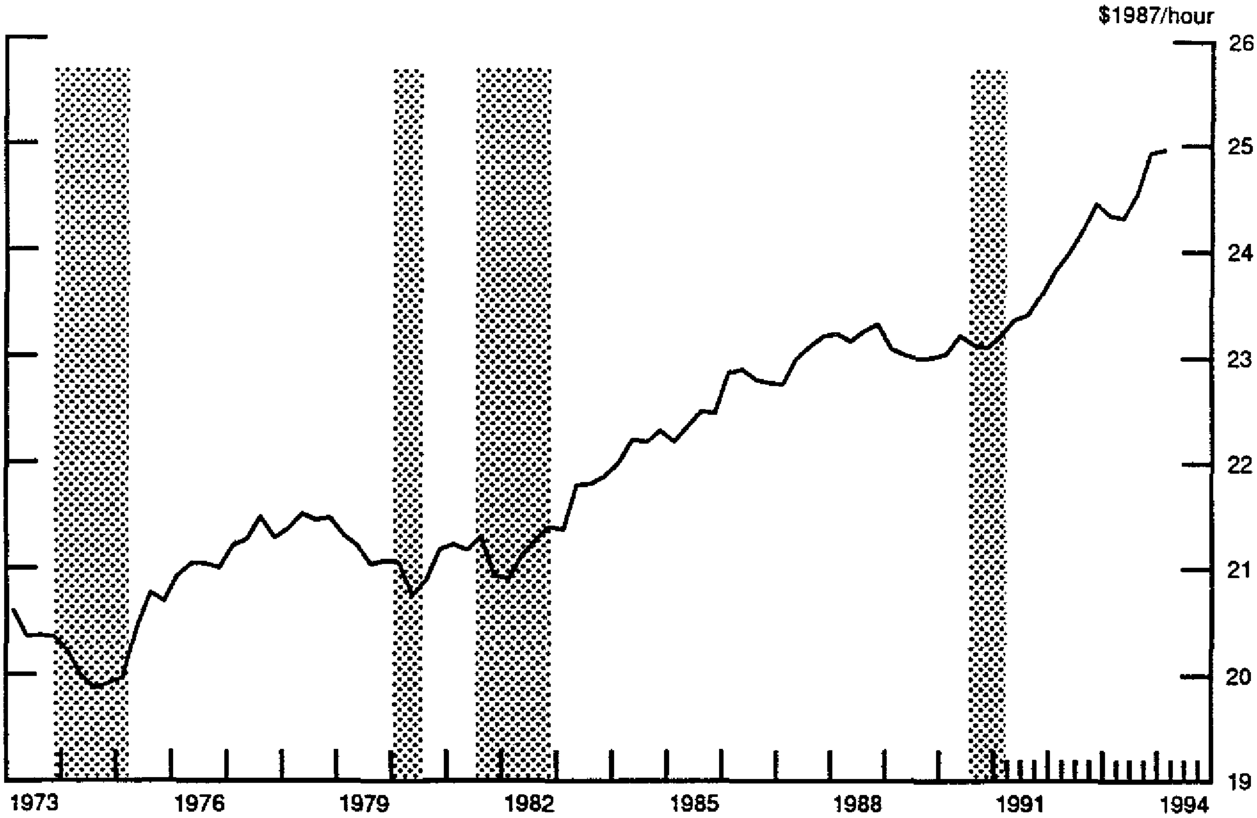
The average workweek of production or nonsupervisory workers remained at an unusually high level in April, suggesting that the March surge in hours reflected more than a temporary rebound from the weather-depressed level of February. The overall manufacturing workweek and the level of factory overtime were at postwar highs in March and April.

As noted above, the unemployment rate continued its descent in April. Adjusting for the possible bias in seasonal adjustment, the jobless rate in April likely was 6.6 percent compared with a rate of about 7 percent, as estimated by the parallel survey in the fourth quarter. The BLS projection of the old unemployment rate, based on payroll employment and insured unemployment, moved similarly; that projection places the current rate at about 6.1 percent--down from 6-1/2 percent in the fourth quarter.

Productivity in the nonfarm business sector currently is estimated to have risen 0.5 percent, at an annual rate, in the first quarter of 1994, after surging at a 6.4 percent rate in the previous quarter.[1] Over the past four quarters, nonfarm business output per hour rose 2-1/2 percent--down from the 3-1/2 percent pace

1. The data used to calculate labor productivity include the hours of supervisory as well as production workers, unpaid family workers, and self-employed persons in the nonfarm business sector. The hours of unpaid family and self-employed workers are derived from the household survey. Rather than allow a break in the hours series as a result of the CPS redesign, the BLS made judgmental estimates of growth in the hours of the self-employed and of unpaid family workers.

LABOR PRODUCTIVITY
(Nonfarm Business Sector)



LABOR PRODUCTIVITY AND COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

			1993			1994	1993:Q1 to
	1992[1]	1993[1]	Q2	Q3	Q4	Q1	1994:Q1
Total business	3.8	2.2	.0	3.3	7.1	.5	2.7
Nonfarm business	3.6	2.0	-.4	4.0	6.4	.5	2.6
Manufacturing	4.8	5.2	6.0	3.0	7.4	6.6	5.7
Nonfinancial corporations[2]	4.4	2.4	3.9	3.7	6.1	ND	ND

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

earlier in the recovery but still well above our estimate of the cyclically adjusted trend growth rate.

Industrial Production

The index of industrial production evidently rose appreciably in April but probably less than the average pace of around 1/2 percent per month in the first quarter. On a quarterly average basis, output grew at a 7.7 percent annual rate in the January-March period, boosted, in large part, by another spurt in assemblies of motor vehicles and by a weather-related boost to electricity generation. Output of other consumer goods and business equipment excluding office and computing equipment grew slowly during the first quarter, as weather-related stoppages early in the year were only partly offset by a strong rebound in March.

PRODUCTION OF DOMESTIC AUTOS AND TRUCKS
(Millions of units at an annual rate; FRB seasonal basis)

	1994					
	Jan.	Feb.	Mar.	Apr.	Q1	Q2
						-scheduled-
U.S. production[1]	12.8	13.9	13.0	12.5	13.2	11.9
Autos	7.0	7.6	7.2	6.9	7.3	6.5
Trucks	5.9	6.3	5.7	5.6	6.0	5.4
Days' supply						
Autos	61.2	60.9	58.2	58.1[e]		
Light trucks	55.2	55.7	55.3	57.8[e]		
Medium and heavy trucks	60.0	65.9	63.8	64.5[e]		

1. Components may not add to totals due to rounding.
e Staff estimate.

In April, a sizable increase in manufacturing output excluding motor vehicles and parts was partly offset by a 500,000-unit decline in motor vehicle assemblies and a slowing of electricity generation. Because automakers stepped up production sharply at the beginning of the year and are operating close to capacity, second-quarter production schedules are substantially lower than first-quarter output on a seasonally adjusted basis. (The number of vehicles

GROWTH IN SELECTED COMPONENTS OF INDUSTRIAL PRODUCTION
(Percent change from preceding comparable period)

	Proportion in total IP 1993:Q4	1993[1]	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.
			-Annual rate-		--Monthly rate---		
Total index	100.0	4.2	6.7	7.7	.4	.6	.5
Previous		4.3	6.7		.5	.4	
Manufacturing	85.2	5.0	8.4	7.8	.1	.7	.6
Motor vehicles and parts	5.6	16.6	91.4	45.8	2.2	5.4	-4.2
Mining	6.9	-.8	2.1	4.7	.0	1.8	1.0
Utilities	7.9	.9	-6.5	9.4	3.5	-1.2	-1.8
Manufacturing excl. motor vehicles and parts	79.6	4.3	4.4	5.5	.0	.3	1.0
Consumer goods	21.4	.6	-1.1	1.7	-.3	.7	.8
Durables	3.7	5.8	4.6	1.4	-.1	-.1	.3
Nondurables	17.7	-.4	-2.2	1.8	-.4	.8	.9
Business equipment	14.9	9.1	7.6	11.0	.6	.5	1.5
Office and computing	4.2	33.9	35.5	34.8	2.2	2.4	2.3
Industrial	3.9	4.2	.2	4.6	-.5	.0	1.3
Other	6.8	.3	-2.2	1.4	.1	-.4	1.1
Defense and space equipment	2.8	-9.5	-9.7	-12.0	-.8	-1.5	-1.1
Construction supplies	5.2	5.9	11.0	.3	-1.1	-1.0	1.1
Materials	39.0	4.3	5.3	7.4	.3	.4	.8
Durables	19.8	7.4	9.0	10.2	.5	.2	1.2
Nondurables	9.2	3.8	4.9	2.5	-.9	.4	.6
Energy	10.0	-1.0	-1.3	6.6	1.0	.7	.2

1. From the final quarter of the previous period to the final quarter of the period indicated.

NEW ORDERS FOR DURABLE GOODS
(percent change from preceding period, seasonally adjusted)

	Share 1993 H2	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.
Total durable goods	100.0	6.4	5.4	4.3	-1.8	.8
Adjusted durable goods orders[1]	67.0	5.5	2.9	-.8	.4	3.8
Nondefense capital goods excluding aircraft and computers	17.0	10.4	1.9	-9.0	6.4	1.0
All other categories[2]	50.0	3.9	3.2	2.3	-1.6	4.8
Real adjusted durable goods orders[3]		6.2	2.2	-.9	.3	3.7

1. Orders excluding defense capital goods, nondefense aircraft, and motor vehicle parts.
2. Includes primary metals, most fabricated metals, most stone,clay, and glass products, computers, and electronic, components, household appliances, scientific instruments, and miscellaneous durable goods.
3. Nominal adjusted durable goods orders were deflated with a PPI for durable goods excluding transportation equipment and the BEA deflator for office, computing and accounting machinery.

CAPACITY UTILIZATION IN INDUSTRY
(Percent of capacity; seasonally adjusted)

	1967-93	1988-89	1993	1994	1994	
	Avg.	High [1]	Q4	Q1	Feb.	Mar.
Total industry	81.9	84.8	82.3	83.3	83.4	83.6
Manufacturing	81.2	85.1	81.5	82.5	82.5	82.8
Primary processing	82.2	89.1	85.5	86.0	85.8	86.4
Textile mill products	86.2	92.1	89.8	90.0	89.7	90.4
Lumber and products	83.1	93.3	91.1	90.5	90.1	90.4
Pulp and paper	92.2	98.1	93.0	94.1	94.0	95.1
Primary chemicals[2]	83.3	92.3	84.9	85.2	85.1	85.0
Petroleum products	85.5	88.5	93.2	91.3	91.4	92.0
Stone, clay and glass	77.9	83.7	78.6	77.8	77.2	78.7
Primary metals	80.1	92.9	89.4	90.3	90.2	90.7
Iron and steel	79.8	95.7	91.5	92.1	92.2	92.5
Nonferrous metals	80.9	88.9	86.2	87.7	87.2	87.9
Fabricated metal products	77.2	82.0	78.8	80.2	79.8	80.7
Advanced processing	80.6	83.3	79.9	81.1	81.2	81.3
Furniture and fixtures	81.7	86.8	81.0	81.3	81.3	81.8
Advanced chemicals[3]	77.3	82.0	78.0	78.9	78.9	79.4
Nonelectrical machinery	80.8	83.7	85.7	87.4	87.0	88.0
Electrical machinery	80.4	84.9	84.1	85.0	84.9	85.5
Motor vehicles and parts	75.7	84.5	84.4	91.7	94.7	90.4
Aerospace and misc. transportation equipment	75.5	88.3	64.2	62.6	62.4	62.2
Instruments	82.0	81.2	72.6	73.1	72.9	73.3
Mining	87.4	87.0	87.8	88.9	89.2	90.1
Utilities	86.7	92.6	86.1	87.8	87.9	86.2

1. The historical highs shown are specific to each series and did not occur in the same month.
2. Primary processing chemicals includes industrial organic and inorganic chemicals, synthetic materials, plastics resins, and fertilizers.
3. Advanced processing chemicals includes drugs and toiletries, soaps and detergents, paints and allied products, pesticides, and other miscellaneous chemical products.

SALES OF AUTOMOBILES AND LIGHT TRUCKS[1]
(Millions of units at an annual rate; BEA seasonals)

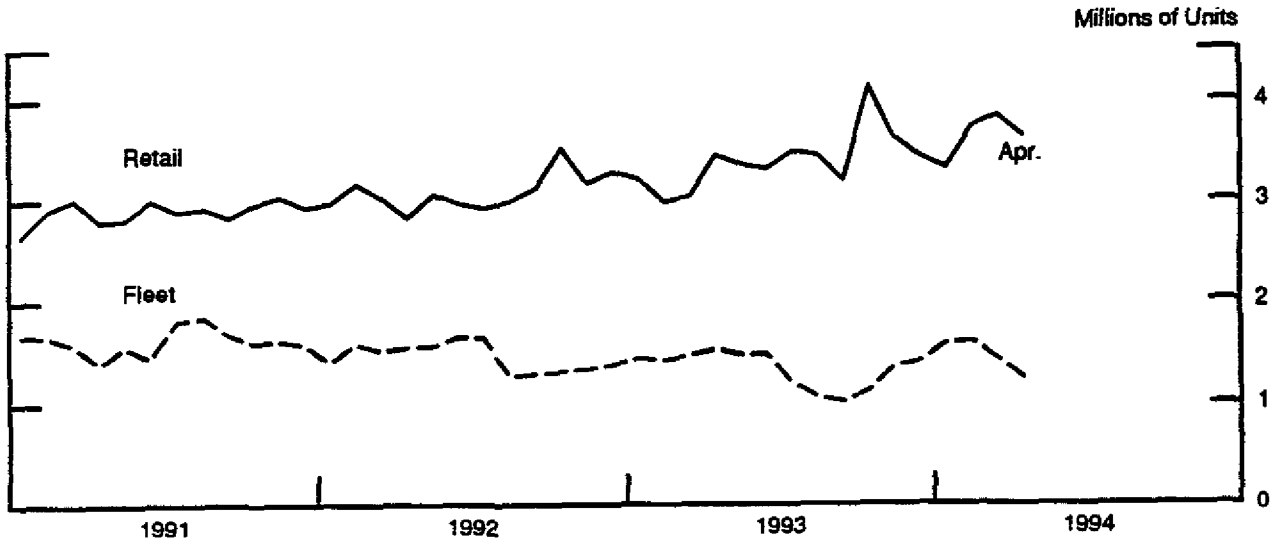
			1993		1994	1994		
	1992	1993	Q3	Q4	Q1	Feb.	Mar.	Apr.
Total	12.83	13.89	13.56	14.55	15.54	15.47	15.85	15.30
Autos	8.38	8.71	8.60	8.95	9.49	9.38	9.86	9.47
Light trucks	4.44	5.17	4.96	5.60	6.05	6.10	5.99	5.83
North American[2]	10.49	11.73	11.40	12.54	13.36	13.33	13.51	13.16
Autos	6.28	6.74	6.63	7.07	7.46	7.39	7.67	7.48
Big Three	5.09	5.46	5.09	5.70	6.03	5.97	6.12	5.97
Transplants	1.19	1.29	1.53	1.37	1.43	1.41	1.55	1.51
Light trucks	4.21	4.99	4.77	5.47	5.90	5.94	5.84	5.68
Foreign produced	2.34	2.15	2.16	2.00	2.18	2.15	2.34	2.14
Autos	2.11	1.97	1.97	1.87	2.03	1.99	2.20	1.99
Light trucks	.23	.18	.19	.13	.15	.16	.14	.15
Memo:								
Domestic nameplate								
Market share, total	.72	.74	.71	.75	.74	.75	.73	.74
Autos	.63	.65	.61	.65	.64	.65	.63	.64

Note: Data on sales of trucks and imported autos for the current month are preliminary and subject to revision.

1. Components may not add to totals because of rounding.

2. Excludes some vehicles produced in Canada that are classified as imports by the industry; prior to January 1994, some vehicles produced in Mexico were also excluded.

GM AND FORD DOMESTIC AUTO SALES
(Seasonally adjusted annual rate; FRB seasonals)



Note: Data are confidential. Retail includes consumer leasing.

assembled at U.S. plants per working day--not seasonally adjusted--has been fairly constant so far this year and is not scheduled to change significantly for the remainder of the current quarter.)

Recent indicators of industrial activity remain very favorable. Production worker hours edged up 0.1 percent in April and factory labor productivity has been trending upward sharply. The available weekly production data for April show further growth in mining as well as improvements in lumber and appliances. The staff's series on real adjusted durable goods orders spiked 3.7 percent in March, after leveling off earlier in the year. Purchasing managers' reports on orders and production in April remained firmly in positive territory.

Capacity utilization rates have increased rapidly in recent months and are now very high in motor vehicles, petroleum refining, lumber, and primary metals industries. The Commerce Department's winter survey of capital spending plans indicates that these industries have revised their planned investment rates up substantially. The Federal Reserve's estimate of manufacturing capacity growth for 1994 was revised up to 3.2 percent from 2.7 percent in the March release because of changes in these and other source data.

Motor Vehicles

Sales of cars and light trucks remained robust in April. The officially reported numbers show that sales of new light vehicles, which had risen sharply through March, declined more than 1/2 million units in April, to a 15.3 million unit annual rate. However, industry sources indicate that the reporting period for March sales was extended, owing to the timing of the Easter holiday, perhaps shifting some reported sales from April to March. The average sales pace for the two months still represents a high-water mark thus far in this economic upswing.[2]

According to confidential data, fleet purchases of new cars, which were boosted by a rebound in sales to rental companies earlier this year, have eased recently. This pattern of sales suggests that the shortfall in purchases that occurred during the second half of last year owing to limited supplies has been recouped (chart). The need to satisfy pent-up demand for fleet cars explains part of the surge in auto assemblies at the turn of the year.

ANNUAL ASSEMBLY CAPACITY
FOR THE U.S. MOTOR VEHICLE INDUSTRY
(Model years; millions of units)

	1992	1993	1994	1995
Total motor vehicles	13.60	13.89	13.94	14.36
Autos	8.19	8.24	8.11	8.35
Trucks	5.41	5.65	5.83	6.01
Medium and heavy	.45	.45	.45	.46
Light	4.96	5.20	5.38	5.55
Previous			*(5.30)*	*(5.36)*

Source: FRB staff compilation from industry sources.

Motor vehicle producers have recently expanded U.S. production capacity for both parts and assemblies. Light truck capacity has been increased by about 50,000 units for the current model year, and plans have been announced to substantially boost production capability for the 1995 model year. For both years, this increased capacity will be achieved mainly by adding shifts. In addition, Ford and Chrysler have begun assembling new light truck models in Canada and Mexico this quarter, which will add about 0.3 million

2. Anticipation of a 2 percentage point increase in the Michigan sales tax in May may have given sales a small lift in March and April.

units to annual North American production capacity.[3] Most of these vehicles will likely be exported to the United States.

Personal Income and Consumption

According to BEA's advance estimate, real PCE rose 3.8 percent, at an annual rate, in the first quarter. As noted above, sales of cars and light trucks grew substantially throughout the quarter. Spending on goods other than motor vehicles was erratic from month to month and posted a comparatively small increase for the quarter as a whole. The deceleration occurred because outlays for durable goods such as furniture, appliances, and other household equipment were little changed in the first quarter after soaring in the second half of last year.

Outlays for services were boosted during the first quarter by unseasonably strong demand for energy services in January and February. Because of the high volume of activity in financial markets, brokerage and investment counseling services were up sharply in January and remained near that elevated level in February and March. A number of other major categories of service spending, such as housing, transportation, and medical services, posted more moderate gains.

Real disposable personal income is estimated to have increased 2-3/4 percent, at an annual rate, during the first quarter after rising 5.4 percent in the fourth quarter.[4] Excluding the estimated effects of the Northridge earthquake, however, real DPI

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3. Ford has just introduced its new Windstar minivan, which is produced in Canada, and believes that domestic sales will average about 200,000 units at an annual rate. Chrysler has begun production of an extended-cab pickup in Mexico at an annual rate of about 100,000 units, which will also be available for sale this quarter.

4. We would not be surprised if this July's annual revisions to the national income and product accounts include significant changes to the estimates of personal income growth to take account of shifts in income from the first quarter of 1994 to the fourth quarter of 1993 in response to the removal of the category on wages subject to Medicare taxes that was part of OBRA-93.

REAL PERSONAL CONSUMPTION EXPENDITURES
(Percent change from the preceding period)

	1993	1993 Q3	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.
		---Annual rate---			---Monthly rate---		
Personal consumption expenditures	3.2	4.4	4.4	3.8	.1	.8	.1
Motor vehicles	5.9	-2.9	22.3	26.3	4.2	1.5	2.5
Goods excluding motor vehicles	3.3	6.0	4.4	1.9	-1.2	1.7	.0
Durables	9.3	14.8	11.0	.0	-2.8	1.3	.5
Nondurables	1.7	3.7	2.7	2.4	-.7	1.8	-.1
Services	2.9	3.9	2.6	3.1	.6	.1	-.0
Excluding energy	3.0	3.1	2.9	3.0	.3	.1	.3
Memo:							
Real disposable personal income	1.1	1.6	5.4	2.7	-1.0	1.5	.3
Personal saving rate (percent)	4.0	3.8	4.0	3.7	3.2	3.9	4.1

PERSONAL INCOME
(Average monthly change at an annual rate; billions of dollars)

	1993	1993 Q3	1993 Q4	1994 Q1	1994 Jan.	1994 Feb.	1994 Mar.
Total personal income	3.4	22.3	35.8	28.3	-47.0	98.9	33.1
Wages and salaries	-8.3	11.5	14.5	16.3	27.5	6.3	15.1
Private	-10.1	9.0	14.1	14.3	23.4	5.0	14.5
Other labor income	2.7	2.7	2.8	3.1	3.0	3.1	3.2
Proprietors' income	3.9	.8	15.9	1.1	-16.1	13.3	6.1
Farm	1.6	-1.1	10.9	-.6	-11.2	8.1	1.4
Rent	1.4	2.0	-.7	4.5	-59.6	68.3	4.9
Dividend	.3	.4	.1	.8	.2	.7	1.6
Interest	.0	1.9	-.5	2.1	1.7	2.2	2.4
Transfer payments	4.7	3.9	4.8	3.6	4.5	5.5	.8
Less: Personal contributions for social insurance	1.2	.7	1.1	3.3	8.2	.5	1.1
Less: Personal tax and nontax payments	-.1	3.0	4.4	4.9	8.8	2.4	3.6
Equals: Disposable personal income	3.5	19.4	31.4	23.4	-55.7	96.4	29.5

growth was about 4-1/2 percent (annual rate) in the first quarter, bringing the four-quarter increase, with adjustments for natural disasters and income shifting, to 2-3/4 percent.[5] Moreover, increases in nominal wage and salary income averaged $16 billion per month in the first quarter, a shade better than in the fourth quarter of 1993; based upon the increases in employment and earnings in April, moderate gains in pretax income continued early in the second quarter. The saving rate fell 1/4 percentage point to 3.7 percent in the first quarter; assuming the quake affected income but not consumption, the saving rate would have risen about 1/4 percentage point in its absence.

The recent runups in interest rates have affected household cash flows and balance sheets through a number of channels. On the negative side, higher mortgage rates have sharply reduced refinancing activity and some adjustable rate mortgages already have repriced at higher rates. Household wealth also has suffered from the declines in stock and bond prices; by the beginning of May, the Wilshire 5000, a broad-based index of common stock prices, had fallen 6-1/4 percent from its peak in late January, while a Merrill-Lynch index of nearly 4,000 investment-grade corporate bond prices was down 10-1/2 percent from its peak in October. On the positive side, higher interest rates have begun to boost asset income. Indeed, personal interest income has edged up in the past few months after changing little, on balance, through most of 1992 and 1993.

Despite the declines in stock and bond prices--and the publicity they have received--consumer confidence has remained

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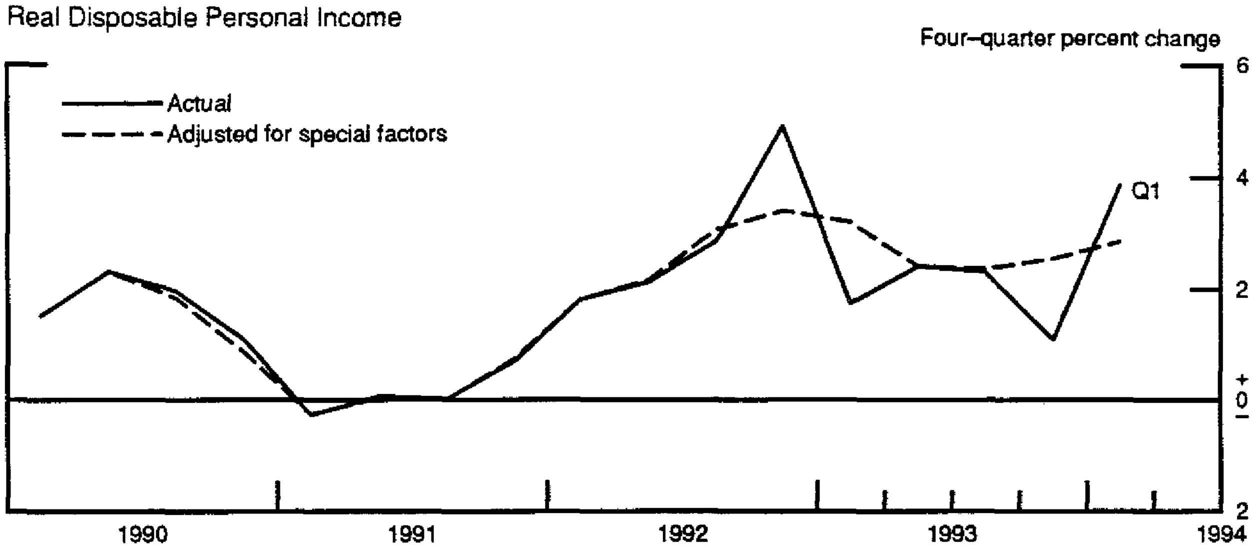
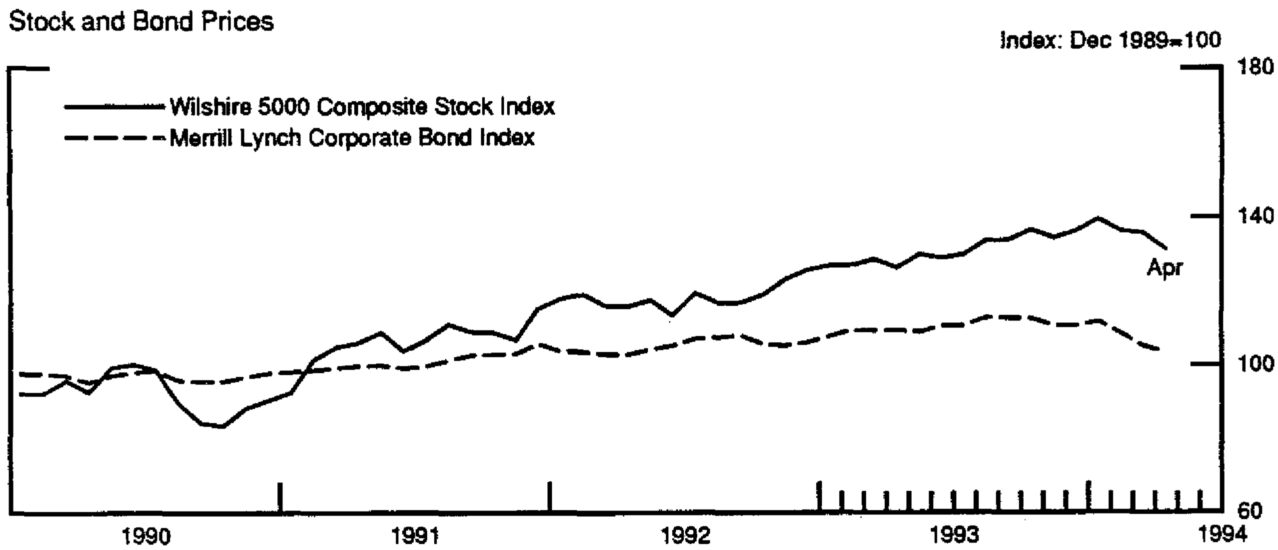
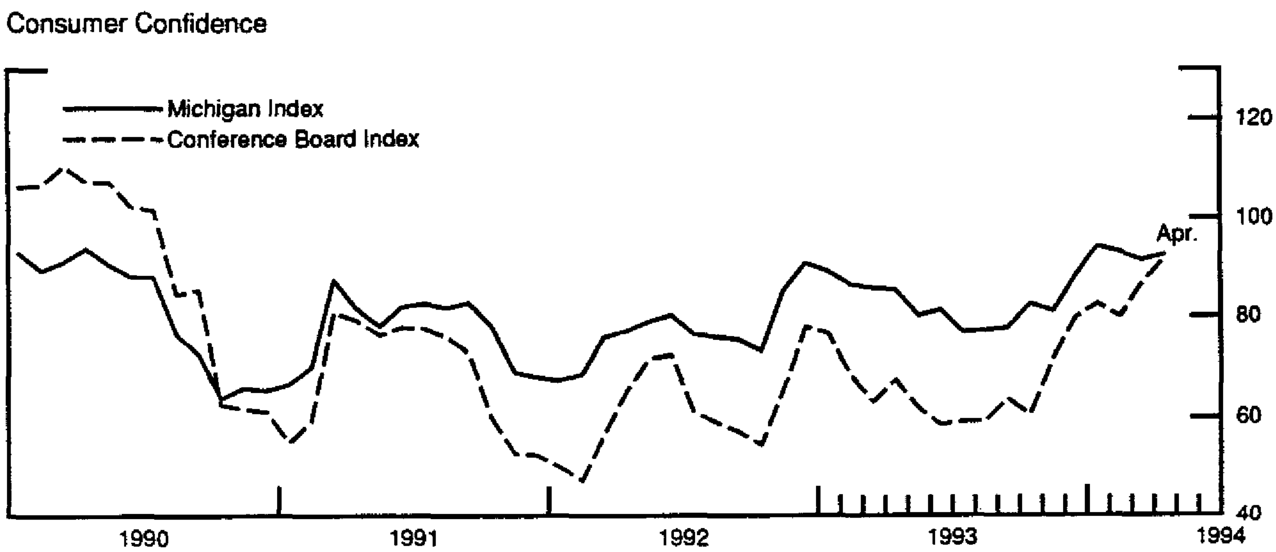
5. BEA estimates that the Northridge earthquake reduced nominal rental and nonfarm proprietors' income nearly $22 billion (annual rate) during the quarter. This figure is $7-3/4 billion larger than the preliminary estimate released last month. The adjusted income calculation cited above also takes out the estimated after-tax effects of income shifting between 1992:Q4 and 1993:Q1, the San Francisco earthquake, last year's flood, and hurricanes Hugo, Andrew, and Iniki.

KEY DETERMINANTS OF CONSUMER SPENDING







relatively upbeat. The Michigan index of consumer sentiment rose considerably around the turn of the year and has maintained that elevated level in recent months. Households' assessments of current economic conditions have edged up a bit since January, and, even though a record proportion of respondents last month reported that they expected interest rates to rise over the next year, the deterioration in expected business conditions has been modest.

Housing Markets

Housing starts and home sales rose in March from their weather-depressed levels of January and February, but the size of the rebounds suggests that higher mortgage rates may have begun to constrain demand.

Single-family starts rose 11 percent in March yet remained significantly below the pace of late last year. The regional pattern of starts in March hints that the weather explains at least part of the gain. Starts rose 30 percent in the Midwest, where the weather in January and February had been severe and the falloff in starts had been particularly large. Permit issuance, however, increased less in March than did starts, and the level of issuance suggests slightly less construction than does the starts estimate.

Sales of new and existing homes also posted significant gains in March but remained below their fourth-quarter averages. Interest rates on fixed rate mortgages rose about 50 basis points in March to a level 130 basis points above the low recorded in October, impinging on cash-flow affordability.

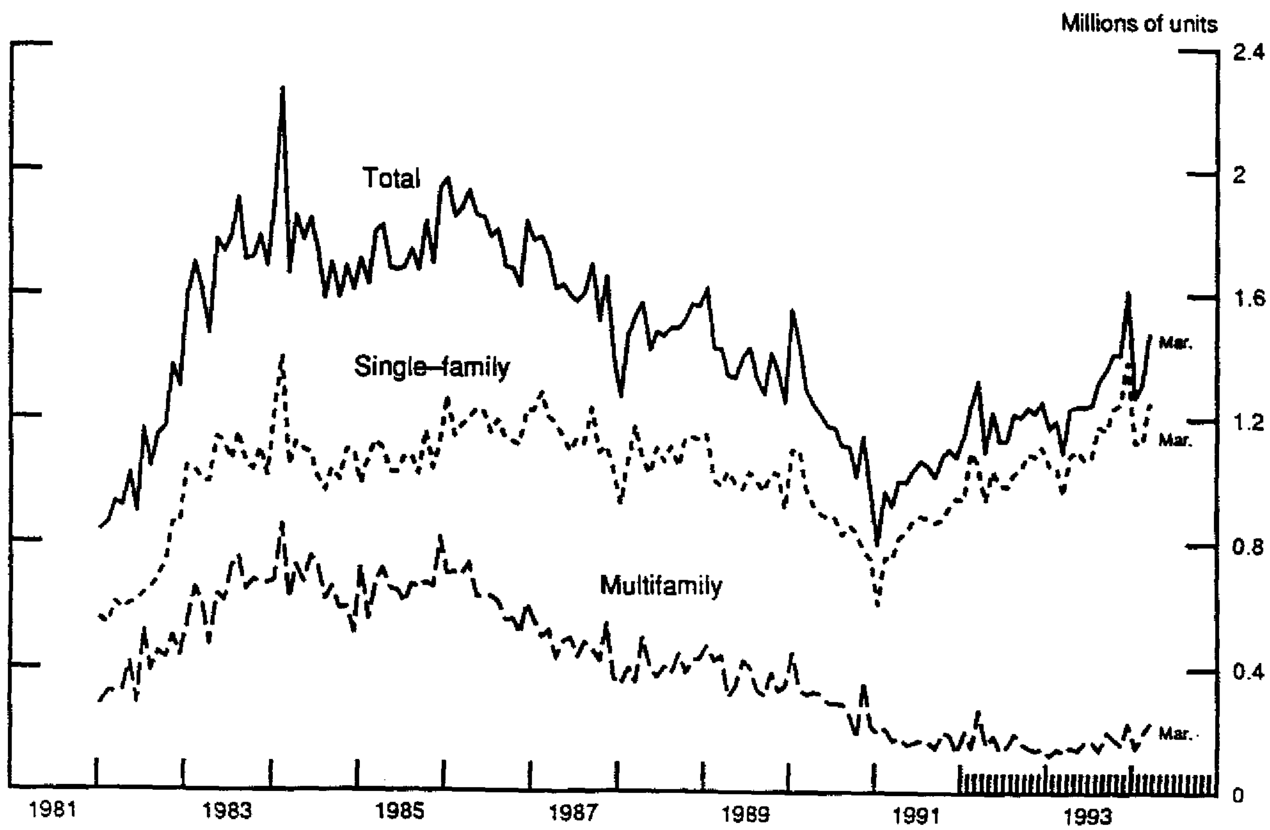
House prices firmed a bit in the first quarter. The Census Bureau's "constant-quality" price index for new homes rose 4.2 percent from a year earlier, and Freddie Mac's "repeat sales" index for existing homes was up 2.6 percent. These figures are near the tops of the ranges of the past couple of years. Increases in

PRIVATE HOUSING ACTIVITY
(Millions of units; seasonally adjusted annual rate)

	1993	1993		1994	1994		
	Annual	Q3	Q4[r]	Q1[p]	Jan.[r]	Feb.[r]	Mar.[p]
All units							
Starts	1.29	1.31	1.48	1.35	1.27	1.31	1.47
Permits	1.21	1.23	1.39	1.31	1.36	1.25	1.31
Single-family units							
Starts	1.13	1.14	1.29	1.16	1.13	1.12	1.25
Permits	1.00	1.01	1.15	1.08	1.12	1.05	1.07
Sales							
New homes	.67	.68	.77	.68	.64	.67	.74
Existing homes	3.80	3.90	4.17	4.05	4.25	3.84	4.06
Multifamily units							
Starts	.16	.17	.19	.19	.15	.19	.23
Permits	.21	.21	.24	.23	.24	.20	.24

p Preliminary.
r Revised estimates.

PRIVATE HOUSING STARTS
(Seasonally adjusted annual rate)



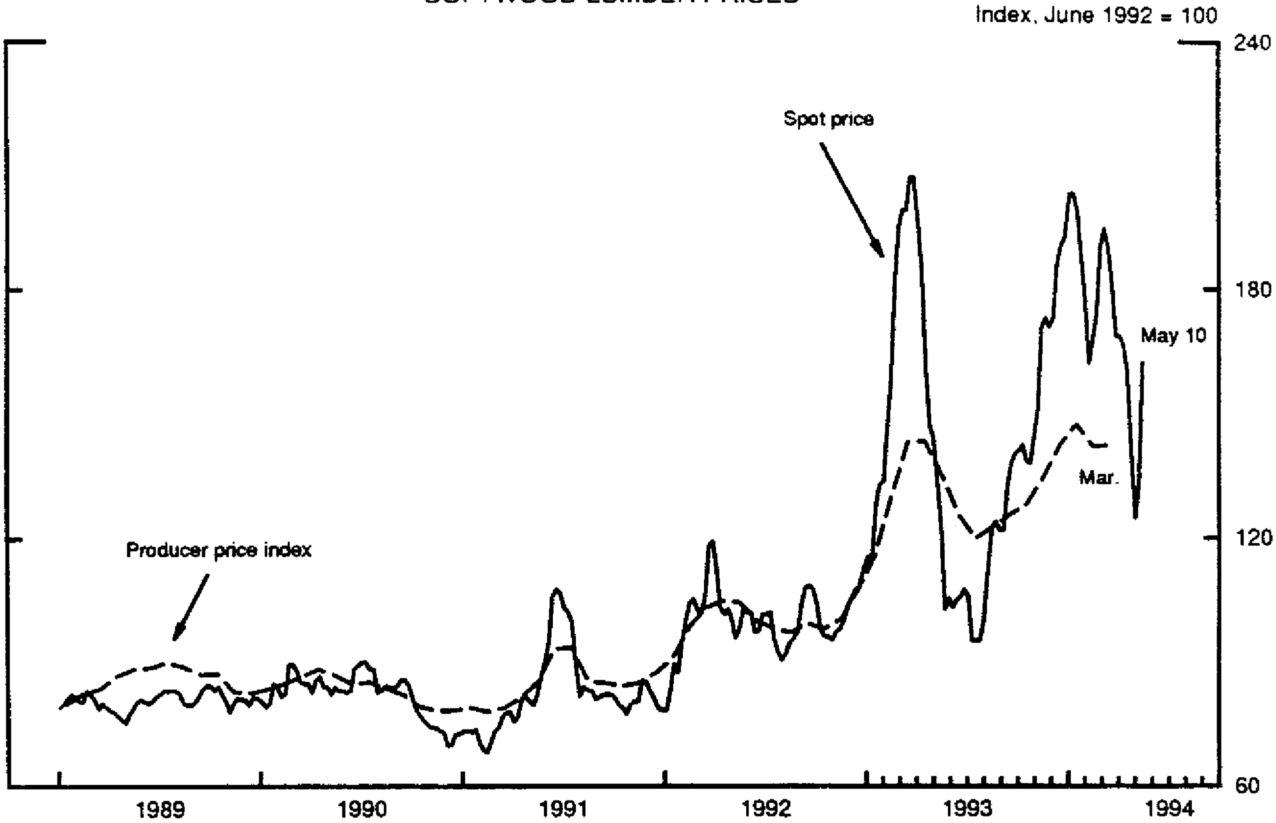
materials costs apparently have been applying some pressure to the prices of new homes (chart). In the first quarter, softwood lumber prices--although quite volatile--averaged 11 percent above a year earlier, and gypsum prices were 18 percent higher. Costs of other materials have increased less dramatically.

Direct measures of housing activity in April and May are not yet available, and surveys of consumers, builders, and mortgage lenders are sending mixed signals (chart). The proportion of consumers reporting favorable homebuying attitudes declined again in April, and the percentage of builders reporting current sales as "good" continued to move down in early May. But applications for home purchase loans at mortgage bankers turned up late last month. (The brief history of this series, however, makes seasonal adjustment problematic.)

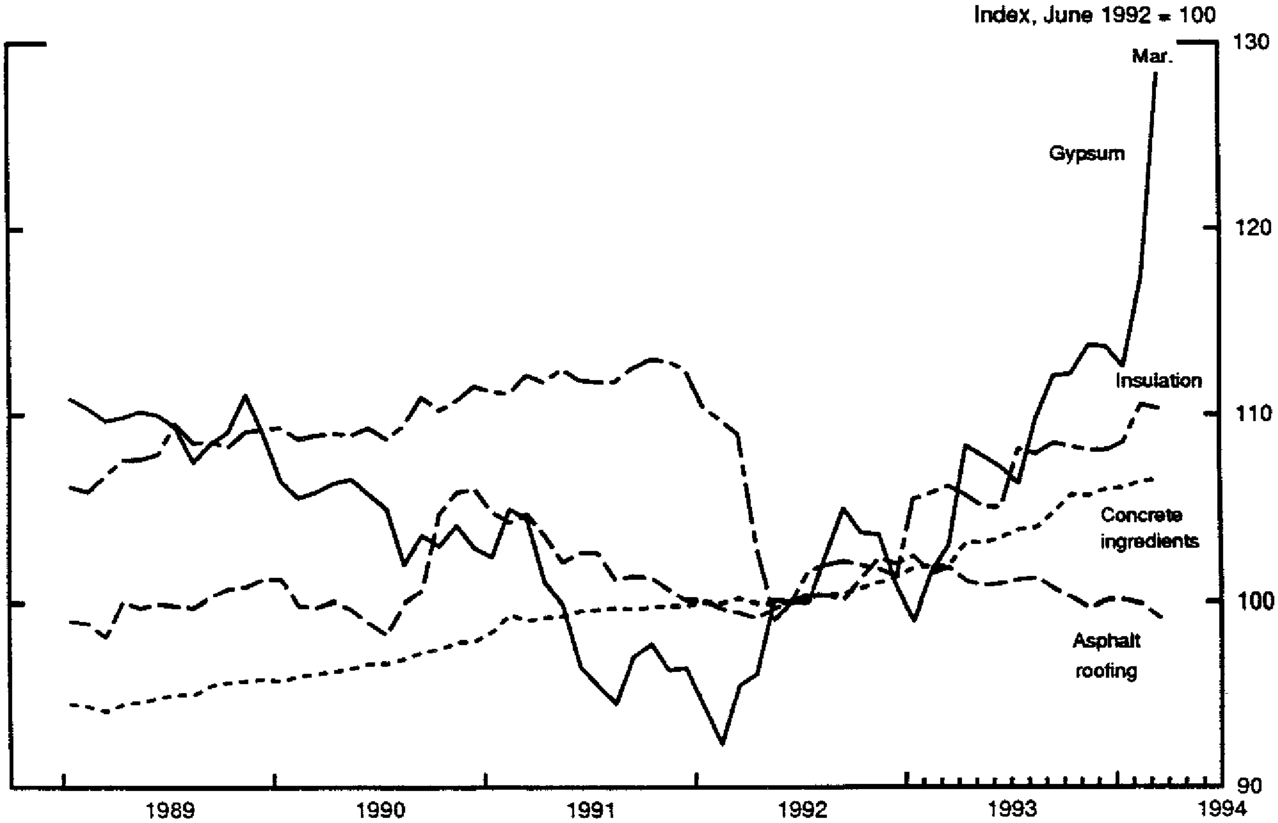
Mobile home shipments are a small component of total residential investment spending, but one that has been growing rapidly of late and, as measured by real expenditures, is now nearly as large as multifamily construction. The number of mobile homes shipped last year exceeded the number of multifamily starts by an unprecedented 50 percent (chart). The recent strength in economic conditions in Texas and other southwestern states (important markets for mobile homes), together with expanded financing opportunities for buyers, appears to be behind the surge.

Multifamily housing starts in February and March averaged a bit above the level that has held for the past few years, and a substantial recovery still appears unlikely despite tightening in some local markets. For the nation overall, vacancy rates remained high through the first quarter (chart), holding down rent increases. Moreover, demand in this market is unlikely to grow fast enough to whittle away many vacancies in the near term.

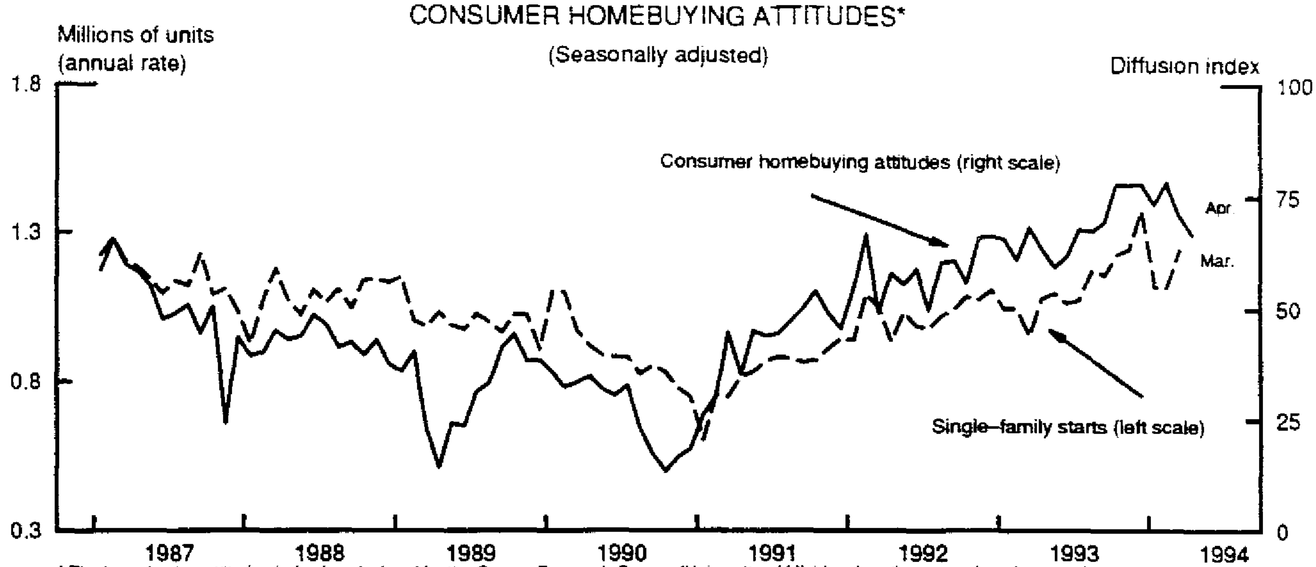
SOFTWOOD LUMBER PRICES



PRODUCERS' PRICES OF CONSTRUCTION MATERIALS

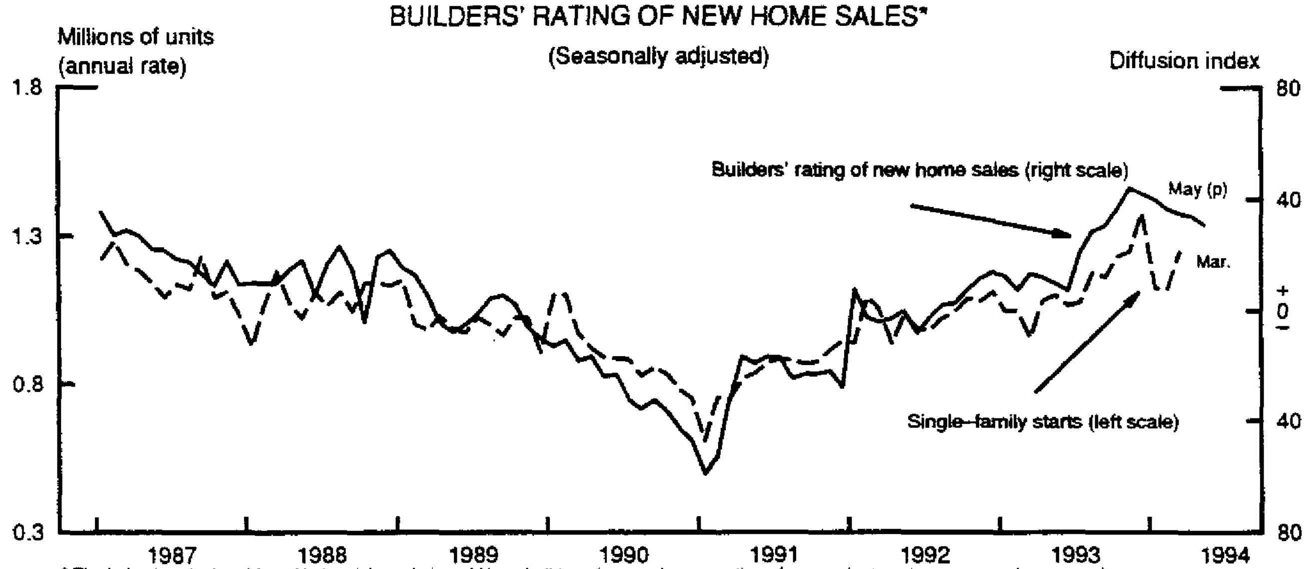


CONSUMER HOMEBUYING ATTITUDES*



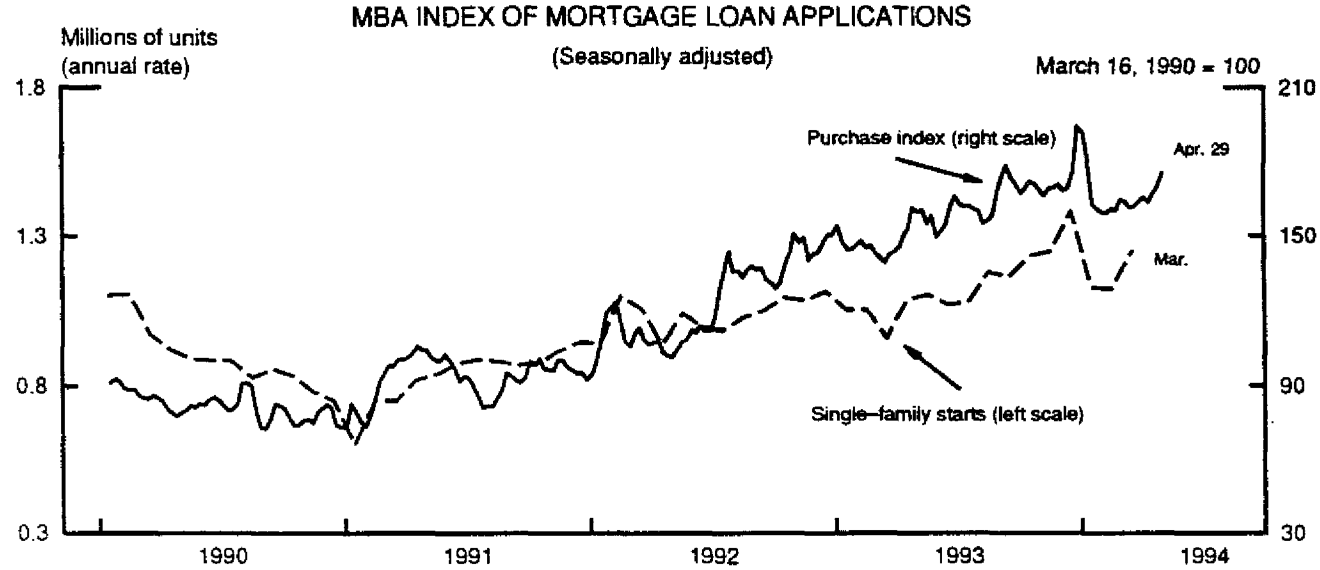
* The homebuying attitudes index is calculated by the Survey Research Center (University of Michigan) as the proportion of respondents rating current conditions as good minus the proportion rating such conditions as bad.

BUILDERS' RATING OF NEW HOME SALES*

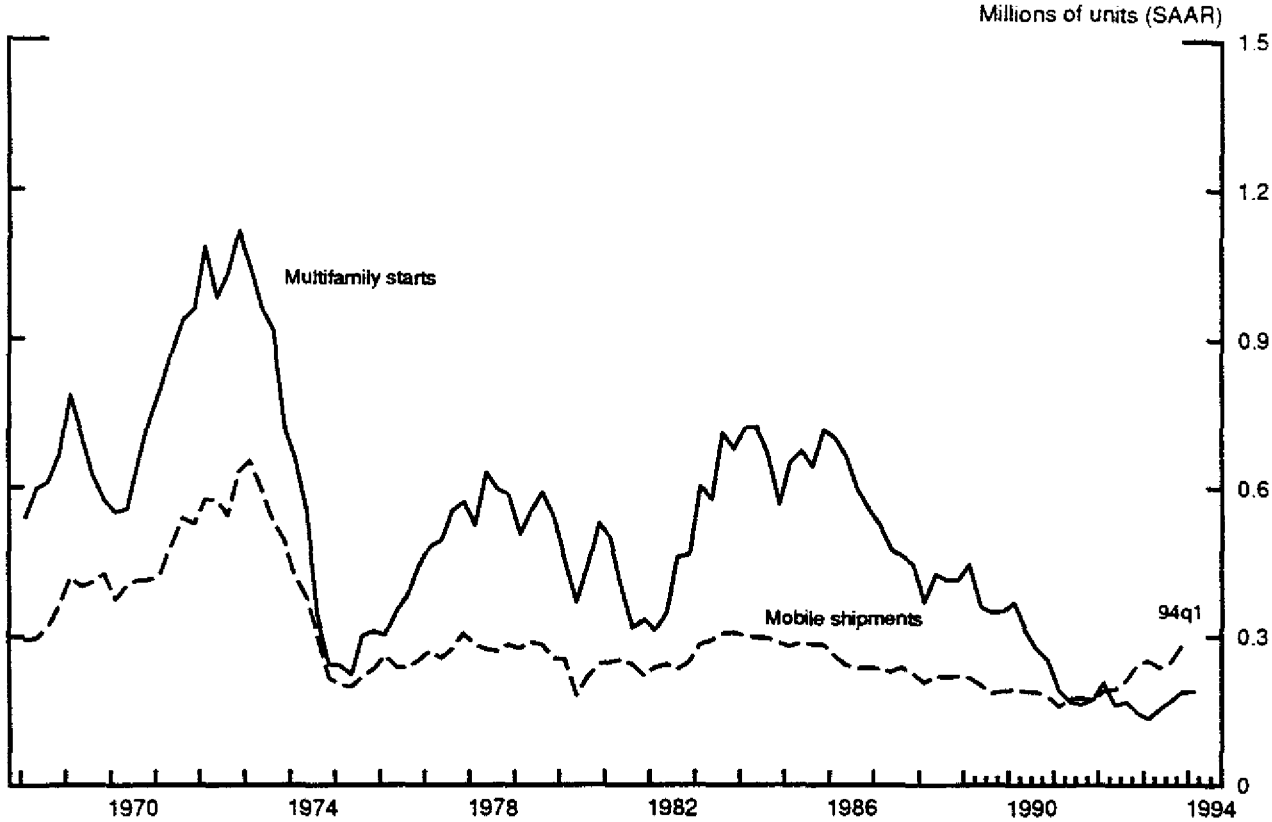


* The index is calculated from National Association of Homebuilders data as the proportion of respondents rating current sales as good to excellent minus the proportion rating them as poor.

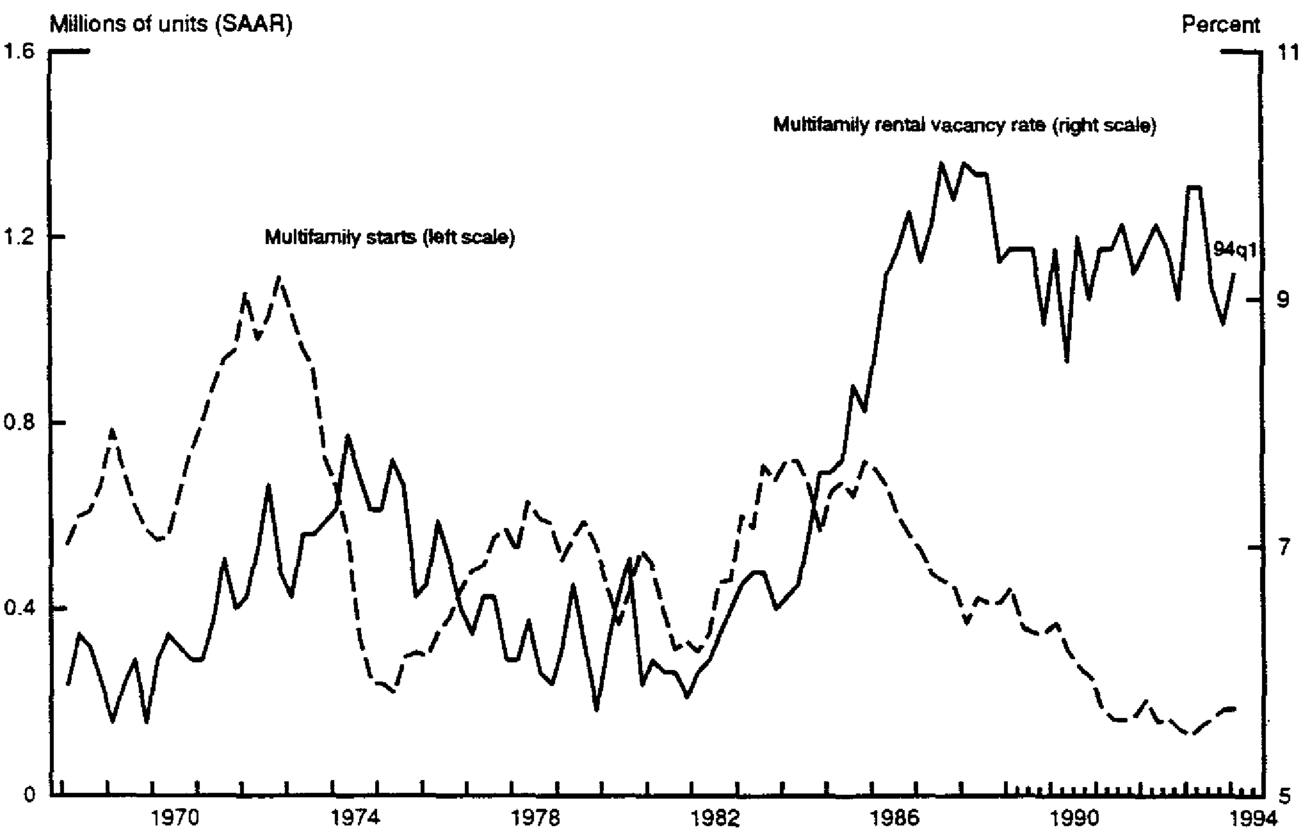
MBA INDEX OF MORTGAGE LOAN APPLICATIONS



MOBILE HOME SHIPMENTS AND MULTIFAMILY STARTS



MULTIFAMILY STARTS AND VACANCY RATE



Business Fixed Investment

Real business fixed investment continued to increase rapidly in the first quarter, although at a less robust pace than in the fourth quarter of 1993. Outlays for equipment posted another hefty advance, while spending for nonresidential structures, which had been on an uptrend for about a year, retraced almost all of its 1993 gain. A good part of this decline in construction outlays probably was caused by severe weather.

Among fundamental determinants of capital spending, the recent increases in long-term interest rates have had a noticeable effect on the cost of capital for equipment excluding computers (chart). The cost of capital for these goods was about unchanged in the first quarter compared with a year earlier; it had been trending down since early 1991. In contrast, the cost of capital for computing equipment continued to decline rapidly, as the influence of higher interest rates was more than offset by the downtrend in the relative price of these goods. The "accelerator effect," as proxied by the four-quarter change in output growth, continues to have a positive effect on investment, albeit less so than earlier in the expansion. Finally, corporate cash flow has picked up impressively in recent quarters, so that the need for external finance has remained modest. On balance, these factors suggest that the climate for investment remains favorable, if not quite so favorable as during the previous couple of years.

The increase in equipment spending last quarter was widespread. Business purchases of light motor vehicles increased further to a level nearly 20 percent above a year ago, with strength in outlays for both autos and light trucks. Business demand for heavy trucks remained strong, and the major domestic makers were producing at capacity with large backlogs. Elsewhere, real spending for

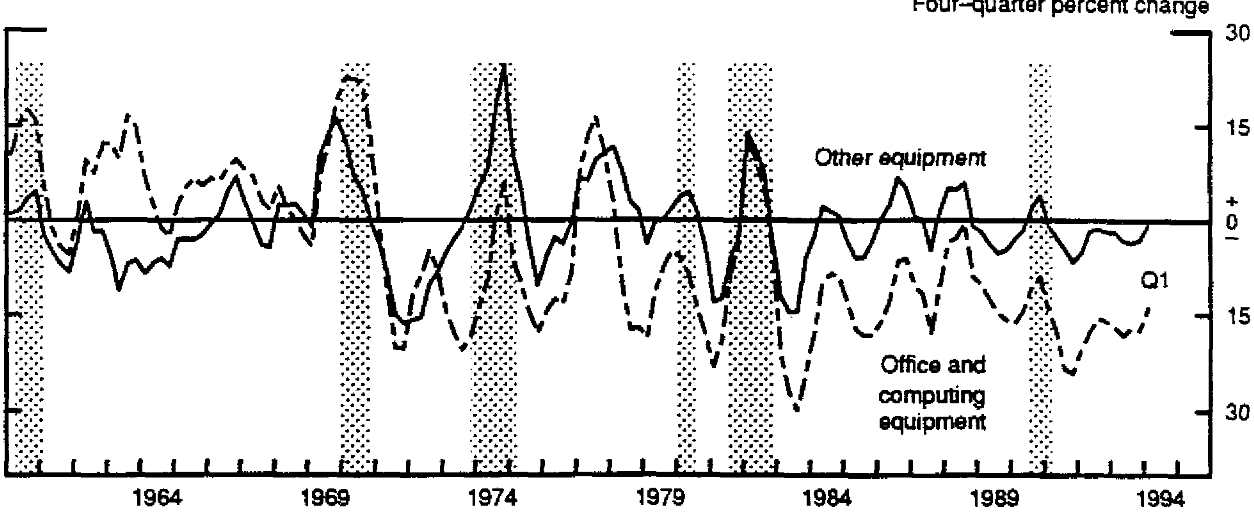
BUSINESS CAPITAL SPENDING INDICATORS
(Percent change from preceding comparable period;
based on seasonally adjusted data, in current dollars)

	1993		1994	1994		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Producers' durable equipment						
Shipments of nondefense capital goods	.6	7.1	.9	-5.9	2.9	1.6
Excluding aircraft and parts	3.4	8.0	1.1	-5.4	5.0	-.9
Office and computing	9.4	5.2	3.0	-2.9	3.5	2.6
All other categories	1.7	8.8	.5	-6.1	5.4	-2.0
Shipments of complete aircraft[1]	-39.5	34.1	10.1	-26.0	-26.4	111.0
Sales of heavy weight trucks	-1.1	8.5	-.1	10.6	-.7	.1
Orders of nondefense capital goods	-1.2	10.4	6.4	4.5	-.7	-.1
Excluding aircraft and parts	3.6	10.9	1.4	-7.5	5.3	2.6
Office and computing	4.9	12.9	.0	-2.1	1.8	8.3
All other categories	3.2	10.4	1.9	-9.0	6.4	1.0
Nonresidential structures						
Construction put-in-place	1.2	4.6	-5.2	-4.4	-4.2	2.9
Office	-1.8	3.5	-4.0	-10.1	-5.2	8.7
Other commercial	-.8	13.2	-4.7	-3.3	-8.7	5.7
Institutional	2.9	-2.2	-6.4	-6.2	-1.8	2.8
Industrial	4.1	6.4	-4.5	-2.3	-3.5	-.2
Public utilities	1.6	3.1	-6.8	-6.3	-1.4	1.5
Lodging and misc.	6.7	-.8	-.4	10.6	-3.2	1.5
Rotary drilling rigs in use	14.2	-3.7	.8	.3	3.7	.5
Memo:						
Business fixed investment[2]	7.4	22.5	5.5	n.a.	n.a.	n.a.
Producers' durable equipment[2]	10.0	26.0	13.5	n.a.	n.a.	n.a.
Nonresidential structures[2]	.3	12.2	-16.1	n.a.	n.a.	n.a.

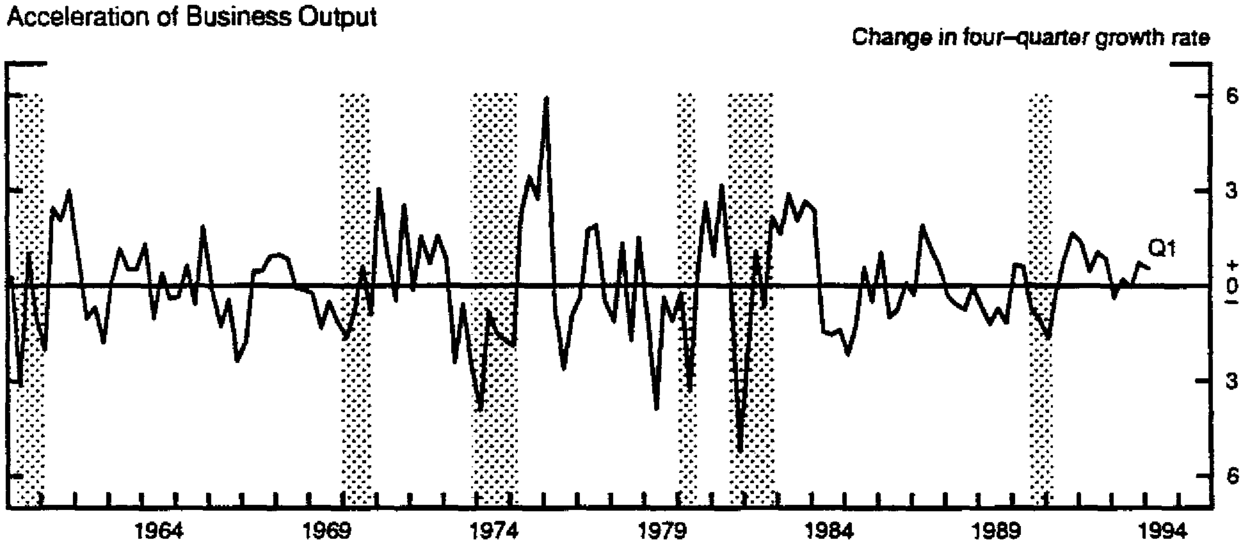
1. From the Current Industrial Report "Civil Aircraft and Aircraft Engines." Monthly data are seasonally adjusted using FRB seasonal factors constrained to BEA quarterly seasonal factors. Quarterly data are seasonally adjusted using BEA seasonal factors.
2. Based on constant-dollar data; percent change, annual rate.
n.a. Not available.

FUNDAMENTAL DETERMINANTS OF BUSINESS FIXED INVESTMENT

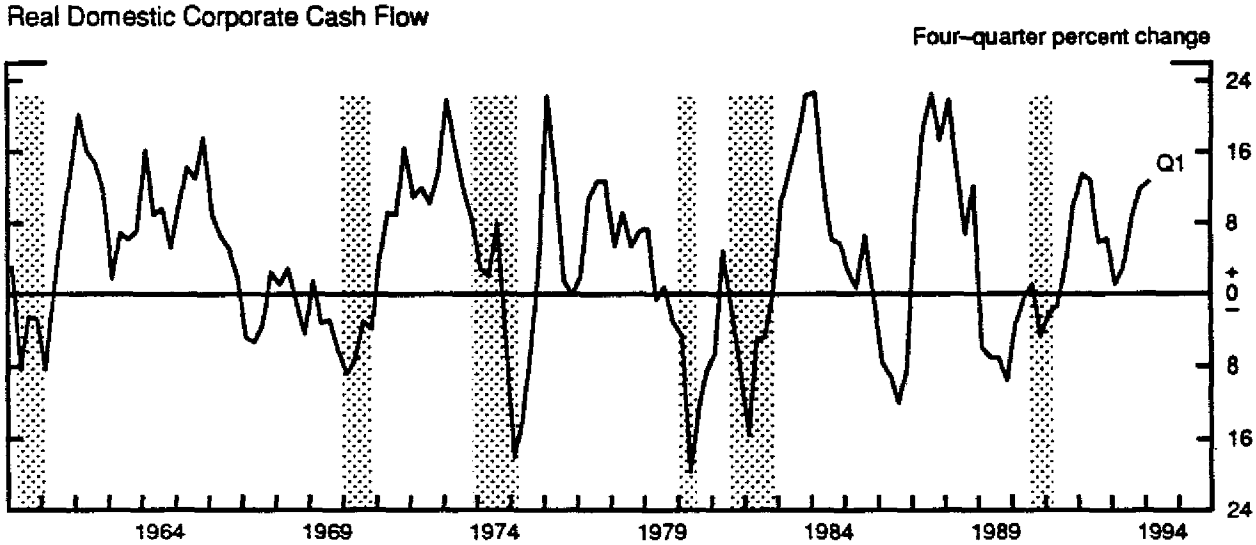
Cost of Capital



Acceleration of Business Output

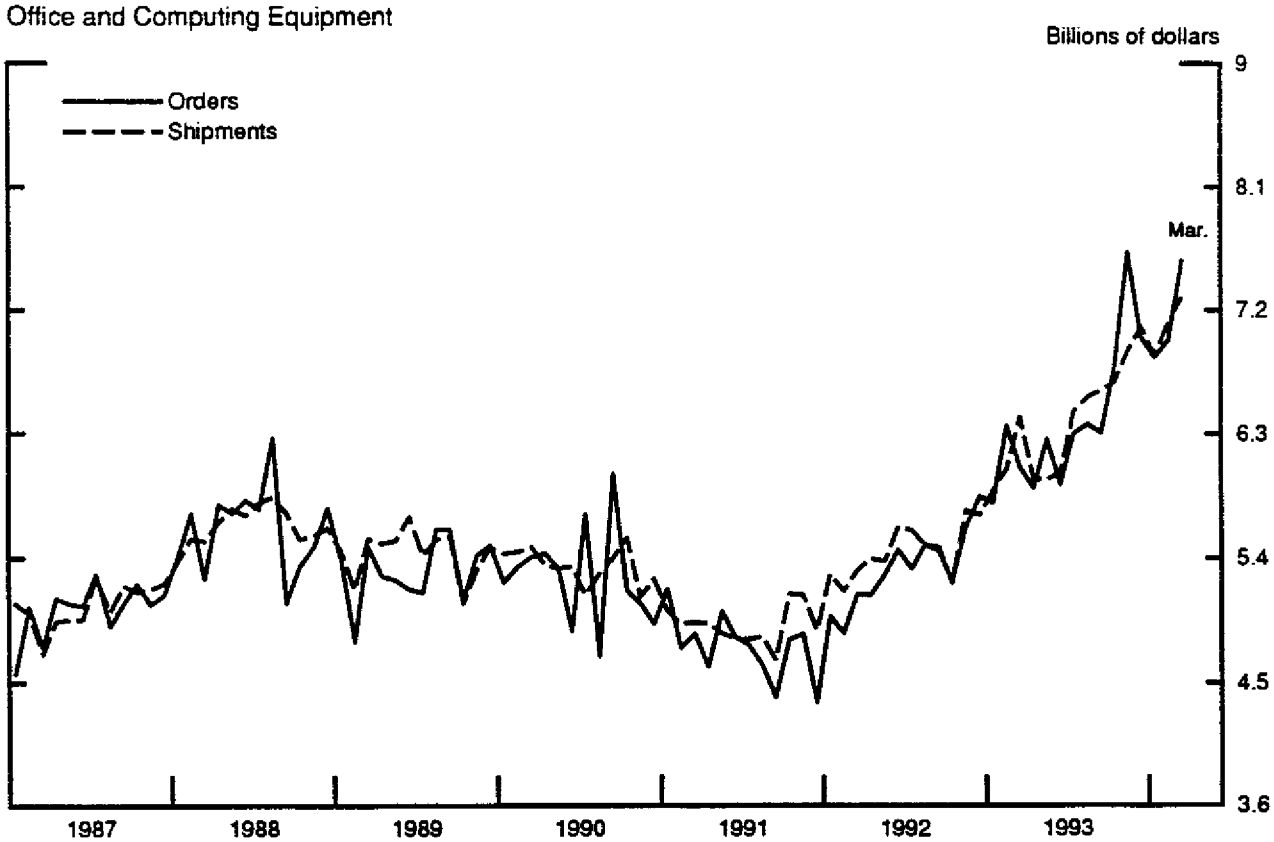


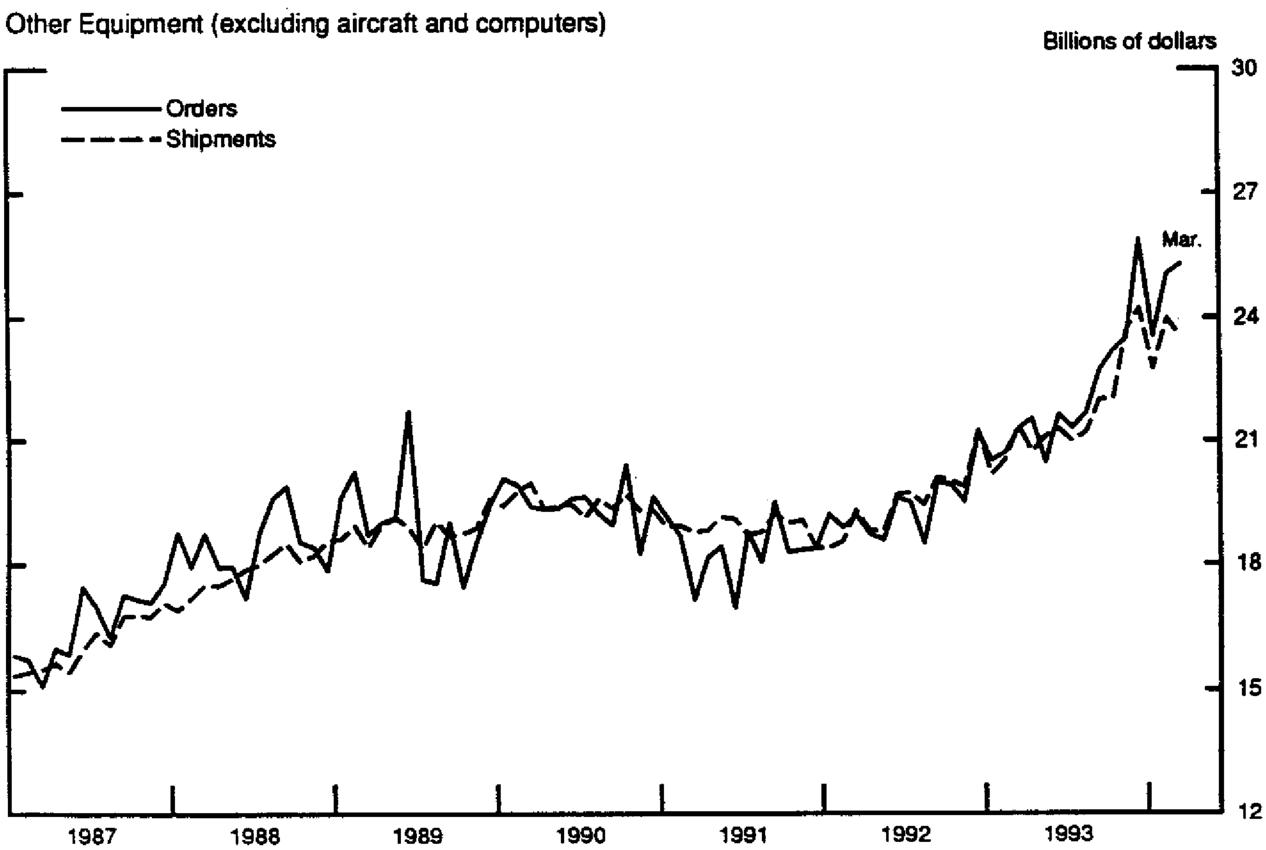
Real Domestic Corporate Cash Flow



Note: Cash flow in Q1 is a staff estimate.

RECENT DATA ON ORDERS AND SHIPMENTS





computing equipment advanced at an 18-1/2 percent pace last quarter; the primary areas of strength reportedly continued to be PCs and workstations. Spending for most other types of equipment has continued to trend up, including industrial machinery, communications equipment, and capital goods for the service industries.

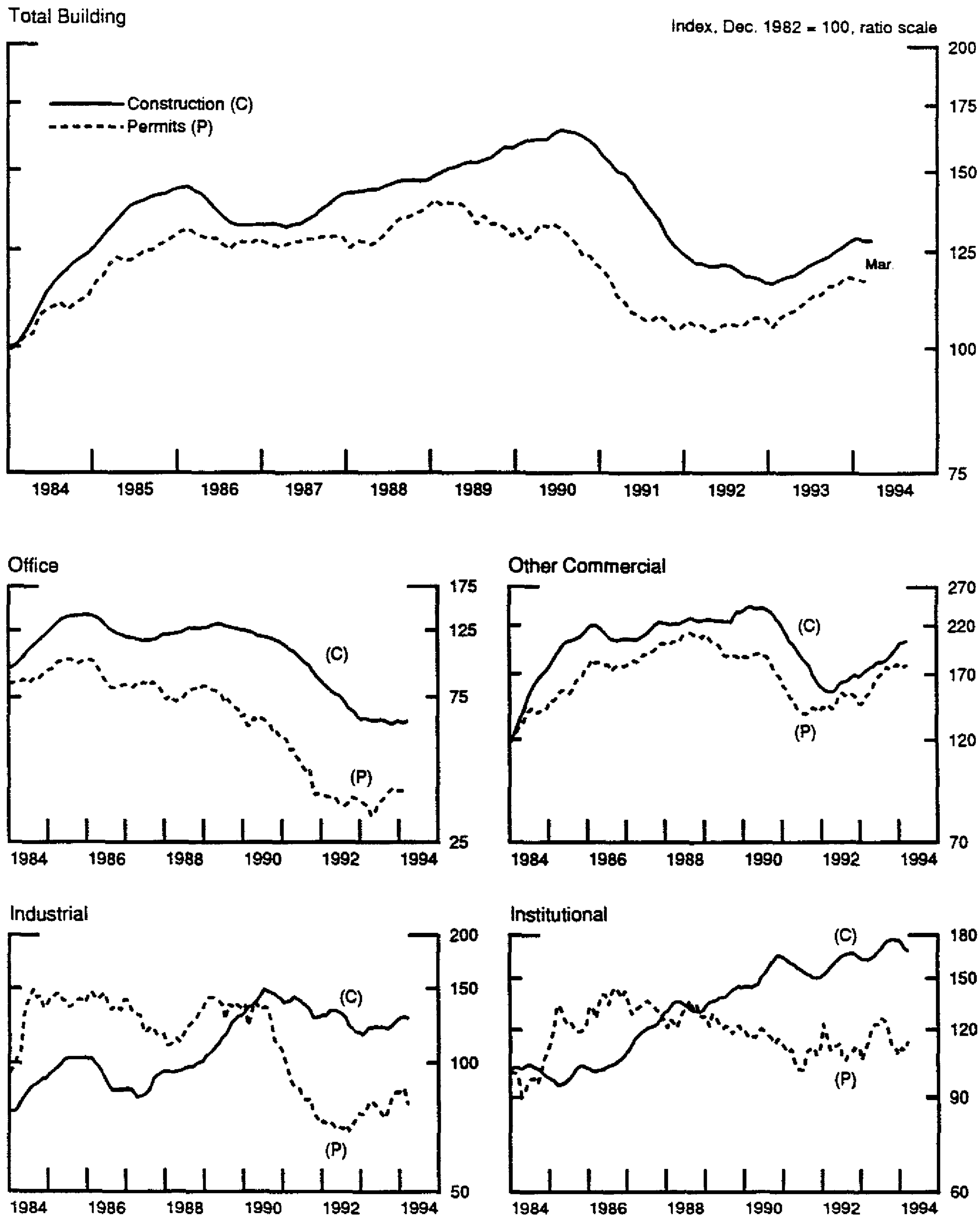
Looking ahead, the recent data on orders received by domestic manufacturers point to further advances in equipment spending in the near term. In particular, new orders for nondefense capital goods, excluding computing equipment and aircraft, rose close to 2 percent in the first quarter after a 10-1/2 percent increase in the fourth quarter. Orders for these goods have outpaced shipments, and, as a result, unfilled orders expanded almost 10 percent over the past six months.

Turning to nonresidential structures, the advance estimates indicate that nominal construction put-in-place rose only 2.9 percent in March after falling 8.8 percent over the severe-weather months of January and February. However, construction employment growth was strong in March and April, and some upward revision to the construction put-in-place data would not be surprising.

Among sectors, office construction in March was estimated to have returned to a level similar to its fourth-quarter average. On the other hand, the more modest rebound in the industrial and other commercial sectors (which includes retail stores) left the level of construction in March noticeably lower than that in the fourth quarter of last year. Permits issued for these structures point to continued near-term spending increases.

Construction outlays by utilities dropped sharply in the first quarter after a small decline last year. In the latest plant and

NONRESIDENTIAL CONSTRUCTION AND PERMITS[1]



1 Six-month moving average for all series shown.

equipment survey, utilities planned a 3-1/2 percent increase in nominal spending for plant this year, considerably weaker than the plans in last fall's survey. The downward revision to spending plans by electric utilities more than accounted for the overall cutback in plans for utilities. According to industry contacts, electric utilities have pared back anticipated capacity expansion, in part, because they perceive a more hostile regulatory environment. Nonetheless, according to analysts at the Edison Electric Institute, investment in this sector is likely to be sustained by spending to meet the provisions of the Clean Air Act.

Manufacturing and Trade Inventories

On balance, business inventories apparently were comfortable to lean in most sectors at the end of the first quarter. For manufacturing and wholesale trade, sharp accumulations in February were partially reversed in March; the current-cost data thus far show that the first-quarter accumulation was about $14 billion (annual rate) below BEA's advance estimate.

Excluding aircraft, manufacturers' inventories expanded further in March at a $9.7 billion annual rate, after buildups averaging $18.6 billion in January and February. The accumulation in the first quarter retraced a string of drawdowns in previous months and appears to have been motivated by the relatively robust factory orders. A substantial part of the manufacturers' inventory buildup during the first quarter was in the stocks of machinery producers, especially in the computing and office equipment industry, where orders generally have been firm in recent months. In contrast, inventories held by aircraft producers continued to decline last quarter. Inventory-shipments ratios in manufacturing have declined further; although delivery times have lengthened and materials

CHANGES IN MANUFACTURING AND TRADE INVENTORIES
(Billions of dollars at annual rates;
based on seasonally adjusted data)

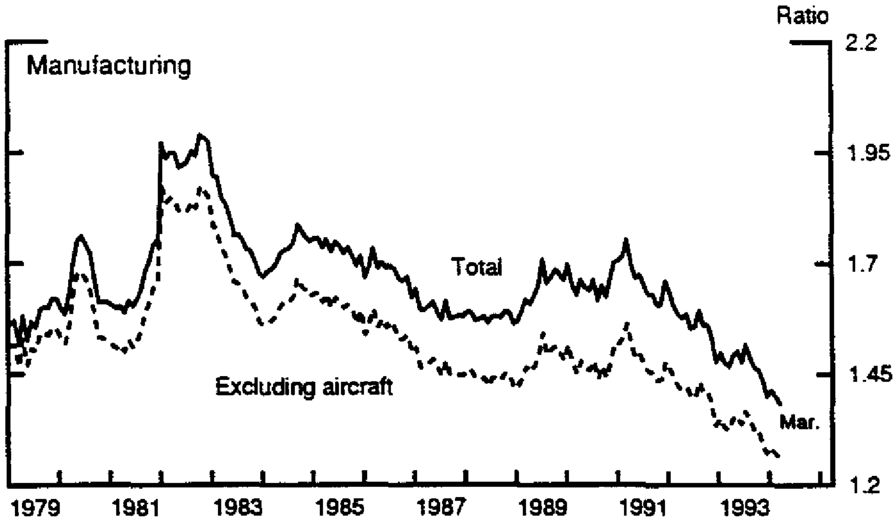
	1993		1994	1994		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	16.1	18.8	n.a.	17.8	49.6	n.a.
Excluding auto dealers	23.5	5.5	n.a.	12.5	47.8	n.a.
Manufacturing	-2.5	-13.1	9.7	17.8	13.9	-2.7
Defense aircraft	-.8	-4.7	-4.5	-.2	-3.1	-10.3
Nondefense aircraft	-3.3	-4.5	-1.4	2.2	-4.3	-2.1
Excluding aircraft	1.5	-3.9	15.6	15.8	21.3	9.7
Wholesale	12.0	6.1	-1.6	.8	17.2	-22.7
Retail	6.6	25.8	n.a.	-.8	18.4	n.a.
Automotive	-7.4	13.3	n.a.	5.3	1.8	n.a.
Excluding auto dealers	14.0	12.5	n.a.	-6.1	16.6	n.a.
Constant-dollar basis						
Total	16.4	5.4	n.a.	4.2	38.2	n.a.
Excluding auto dealers	23.5	3.0	n.a.	1.4	27.5	n.a.
Manufacturing	3.1	-5.3	n.a.	16.5	4.4	n.a.
Wholesale	8.5	-.4	n.a.	-4.9	12.7	n.a.
Retail	4.8	11.1	n.a.	-7.5	21.1	n.a.
Automotive	-7.1	2.4	n.a.	2.8	10.7	n.a.
Excluding auto dealers	11.8	8.6	n.a.	-10.3	10.4	n.a.

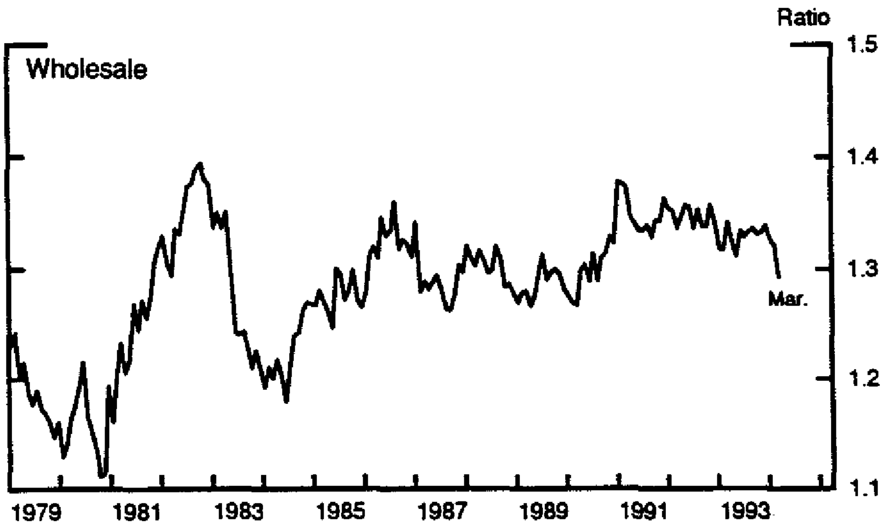
INVENTORIES RELATIVE TO SALES[1]
(Months supply; based on seasonally adjusted data)

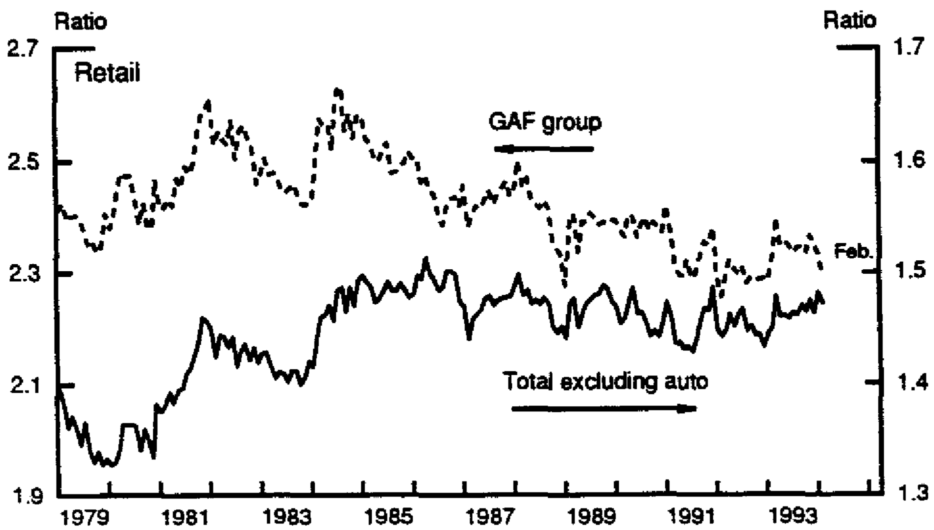
	1993		1994	1994		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
Current-cost basis						
Total	1.46	1.43	n.a.	1.42	1.41	n.a.
Excluding auto dealers	1.44	1.41	n.a.	1.40	1.39	n.a.
Manufacturing	1.49	1.42	1.40	1.41	1.40	1.38
Defense aircraft	5.22	5.24	4.78	4.95	5.24	4.69
Nondefense aircraft	5.39	5.05	4.98	5.07	5.49	4.62
Excluding aircraft	1.35	1.29	1.28	1.28	1.27	1.27
Wholesale	1.34	1.34	1.31	1.33	1.32	1.29
Retail	1.52	1.51	n.a.	1.52	1.50	n.a.
Automotive	1.69	1.66	n.a.	1.65	1.61	n.a.
Excluding auto dealers	1.48	1.47	n.a.	1.48	1.47	n.a.
Constant-dollar basis						
Total	1.55	1.52	n.a.	1.51	1.50	n.a.
Excluding auto dealers	1.54	1.50	n.a.	1.50	1.49	n.a.
Manufacturing	1.60	1.53	n.a.	1.52	1.51	n.a.
Wholesale	1.42	1.42	n.a.	1.41	1.41	n.a.
Retail	1.60	1.57	n.a.	1.57	1.56	n.a.
Automotive	1.76	1.67	n.a.	1.65	1.64	n.a.
Excluding auto dealers	1.55	1.54	n.a.	1.55	1.54	n.a.

1. Ratio of end of period inventories to average monthly sales for the period.

RATIO OF INVENTORIES TO SALES
(Current–cost data)







FEDERAL GOVERNMENT OUTLAYS AND RECEIPTS
(Unified basis, billions of dollars, except where otherwise noted)

	Fiscal year to date[1]			
	FY1993	FY1994	Dollar change	Percent change
Outlays	709.9	726.8	16.9	2.4
Deposit insurance (DI)	-13.6	-6.7	6.8	-50.3
Outlays excluding DI	723.5	733.6	10.1	1.4
National defense	146.1	139.6	-6.5	-4.4
Net interest	99.3	99.1	-.2	-.2
Social security	148.5	156.0	7.5	5.0
Medicare and health	110.5	123.4	12.9	11.7
Income security	108.9	113.1	4.2	3.9
Agriculture	14.5	11.1	-3.3	-23.0
Education	25.4	20.8	-4.6	-18.3
Other	70.3	70.4	.1	.1
Receipts	527.1	576.1	49.0	9.3
Personal income taxes	246.8	261.7	14.9	6.0
Social insurance taxes	191.7	209.4	17.7	9.2
Corporate income taxes	43.3	53.7	10.4	24.1
Other	45.3	51.4	6.1	13.5
Deficit(+)	182.8	150.7	-32.1	-17.6
Excluding DI	196.4	157.4	-39.0	-19.8

Note: Details may not add to totals because of rounding.
1. October through March

prices have been rising, companies apparently have continued to keep a tight rein on stocks.

In the trade sector, wholesale inventories declined sharply in March, more than retracing the buildups reported earlier in the first quarter. More than half of the March drawdown in wholesale inventories was in the motor vehicle sector and may reflect the robust sales of imported autos and light trucks during the first quarter. At retailers, inventories expanded substantially in February, while sales posted robust gains. The largest buildup was in stocks at general merchandise stores, where sales also advanced strongly. On the whole, inventories in the trade sector, at both retail and wholesale establishments, appear to be at satisfactory levels.

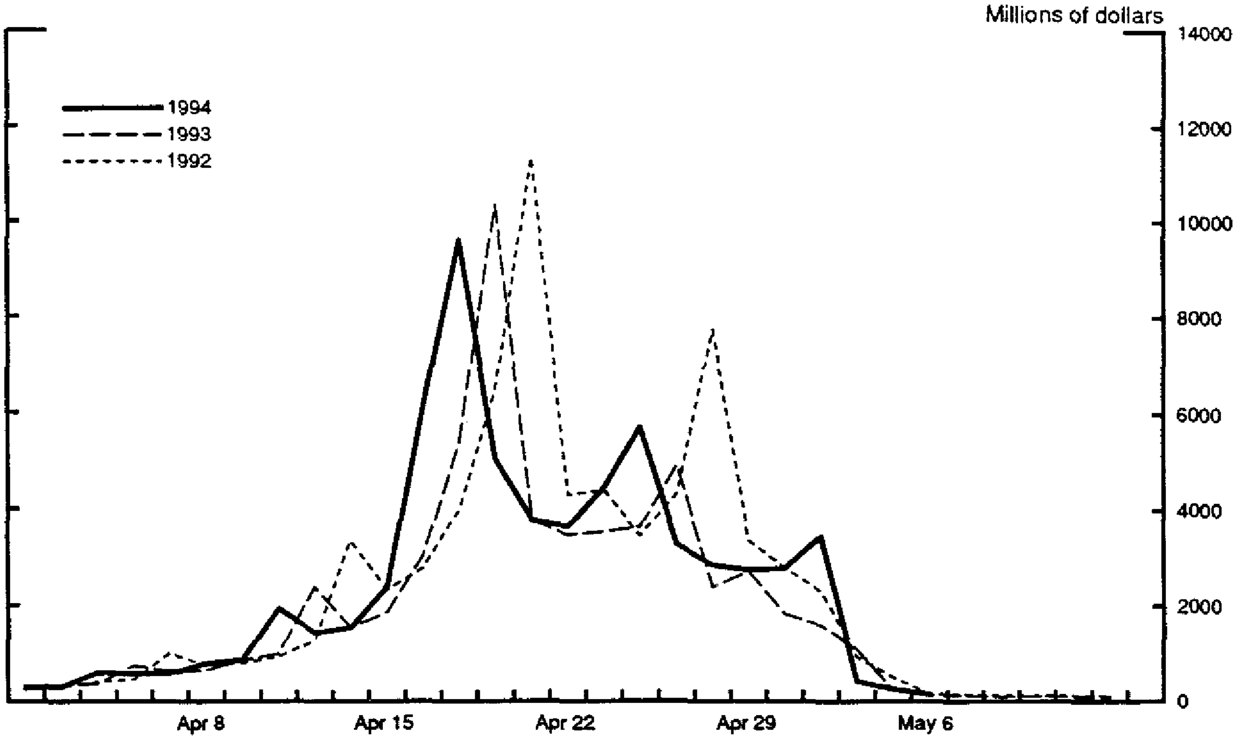
Federal Sector

Real federal government purchases dropped at an annual rate of 12 percent in the first quarter of 1994. The decline was greater than the trend implied by recent legislation and reflects the large quarter-to-quarter volatility of federal purchases.

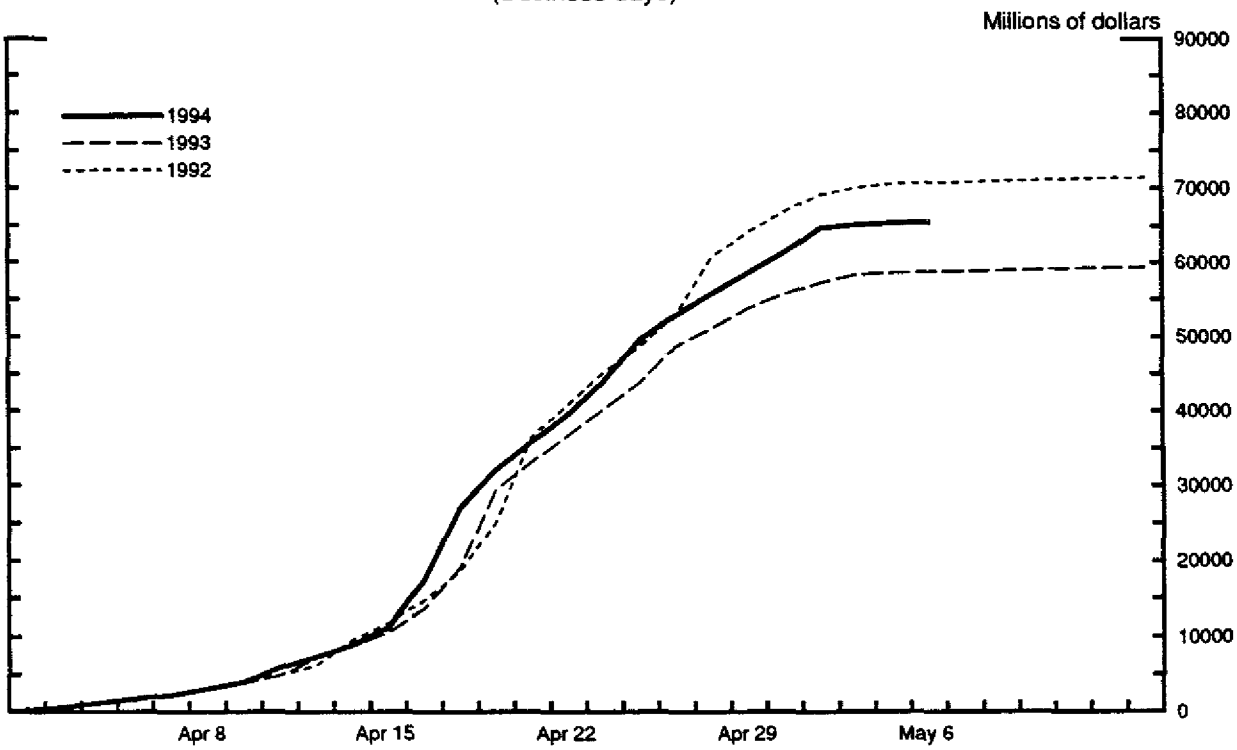
The continuing reduction in military spending was responsible for $9 billion of the $11 billion decrease in real federal purchases. About half of this decline was for durable goods and storable nondurable goods, notably aircraft, ships, and ammunition. Normally, volatility in these purchases does not translate entirely to fluctuations in production (purchases are not recorded until the military takes delivery); however, there was no direct evidence of a buildup in the inventories of defense-related manufacturers during the first quarter.

The unified federal budget deficit for the first half of fiscal year 1994 was $151 billion, 18 percent less than for the same period in fiscal 1993. This deficit reduction reflects robust

DAILY NONWITHHELD TAX RECEIPTS IN APRIL AND EARLY MAY
(Business days)



CUMULATIVE NONWITHHELD TAX RECEIPTS IN APRIL AND EARLY MAY
(Business days)



Note: Nonwithheld taxes include final payments on prior year liabilities, estimated tax payments on 1994 liability, and SECA (social security taxes from self-employed individuals). Dates shown are for 1994; the daily figures for 1993 and 1992 are aligned to correspond to these dates.

Source: Fiscal Analysis Section

growth in receipts and a subdued increase in outlays excluding deposit insurance. All major categories of tax receipts are up over last year. In particular, individual income and social insurance taxes combined are 7 percent higher, and corporate income taxes are up 24 percent. Outlays this fiscal year have been held down by faster-than-expected declines in defense spending. Indeed, much of the anticipated decline for all of FY1994 already has occurred, suggesting relatively flat defense spending for the remainder of the fiscal year. In addition, strong income growth has reduced income security outlays; continued declines in average interest rates paid on federal debt have held interest outlays about flat in spite of increasing debt levels; higher crop prices have reduced farm subsidy payments; and accelerated repayments of Federal Financing Bank loans by the Student Loan Marketing Association have offset education spending.[6] The primary stimulus to federal outlays still comes from spending on Medicare, Medicaid, and other health programs. Health-related outlays are up about 12 percent for the current fiscal year to date--a rise consistent with the growth last year but much less than increases in 1990, 1991, and 1992.

Daily Treasury Statement data indicate that nonwithheld tax collections from April 1 through May 6 totaled $66 billion, $7 billion more than during the same period in 1993.[7] Nonwithheld taxes in 1994 include final payments on income tax liabilities from 1993 and prior years, estimated tax payments on

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6. The Sallie Mae repayments are scored on a cash basis because the loans were extended prior to the effective date of the Federal Credit Reform Act of 1990. For federal loans extended after FY1992, only the subsidy value of federal loans is scored as an outlay, and loan repayments are scored as a negative outlay only to the extent that repayments exceed expectations.

7. Estimated payment rules were tightened for 1992 and 1993 tax liabilities, which increased estimated tax payments during CY1992 and CY1993 and decreased final payments in the springs of 1993 and 1994. Starting this year, OBRA-93 partly reverses some of this tightening.

1994 tax liabilities, and social security taxes from the self-employed; the breakdown among these categories will not be known until later this year. Last year, about half of nonwithheld collections in April and May were final payments on 1992's tax liabilities.

These data on nonwithheld tax payments do not, by themselves, provide much information about total personal income tax liabilities in 1993 because they account for such a small and variable share of total payments. Nonetheless, when combined with the $24 billion increase in withholdings in 1993, our estimate of a $2 billion rise in estimated payments for 1993 over 1992, and essentially flat refunds, they suggest that liabilities increased about 6 percent between 1992 and 1993. By comparison, the NIPA proxy for taxable income increased about 4 percent.

The currently available data provide little insight on the accuracy of our ex ante estimate that OBRA-93 would add about $15 billion to 1993 liabilities. Because individuals were allowed to spread their incremental tax liabilities for 1993 evenly over three years, any amounts that showed up in either final payments or refunds this filing season would have been small in what are noisy series in any event. Reliable evidence on this issue will not be available until final data on 1993 personal income tax liabilities by income class are released by the IRS in about two years.

The Fiscal 1995 Budget Resolution was reported out by Senate and House conferees, and was passed by the House on May 5. The resolution calls for discretionary spending to fall $13 billion below the spending caps over the next five years. This was a compromise between the original Senate bill, which called for $26 billion of additional cuts, and the original House bill, which called for no additional cuts.

State and Local Government Sector

Real purchases of goods and services by state and local governments are estimated to have fallen at a 2.6 percent annual rate in the first quarter, the first decline in three years and the largest in more than a decade. Construction spending accounted for all of the drop; increases in outlays for other goods and services were in line with recent increases. The sharp drop in construction spending occurred in spite of quake-related construction in California and is presumably attributable to disruptions caused by the severe winter weather in January and February. The advance estimates for March--which are subject to considerable revision and are seemingly at odds with data on construction employment--indicate that construction spending continued to edge down despite better-than-normal weather.

The deficit of operating and capital accounts, excluding social insurance funds, appears to have widened considerably in the first quarter as a sharp drop in federal grants more than offset the decline in purchases. The drop-off in federal grants was primarily for Medicaid and reflected quarterly volatility rather than an underlying trend.

Although aggregate NIPA data indicate continuing state and local budgetary erosion, the fiscal picture for the states' general fund accounts--which represent roughly a quarter of the sector's total spending--has improved overall. All but five states find that revenues are at or above target, and hence fewer states than in 1992 and 1993 are having to make mid-year budget adjustments this year. This improvement has enabled many governors to propose tax cuts for fiscal year 1995, primarily for personal income taxes.

In the spring legislative sessions, crime-fighting initiatives--such as building more prison boot camps and imposing

EMPLOYMENT COST INDEX OF HOURLY COMPENSATION
FOR PRIVATE INDUSTRY WORKERS

	1993				1994
	Mar.	June	Sep.	Dec.	Mar.
	-----Quarterly percent change------- (compound annual rate)				
Total hourly compensation:[1]	3.9	3.8	3.4	3.4	2.7
Wages and salaries	3.2	2.5	3.5	3.2	2.1
Benefit costs	6.0	5.6	4.2	4.5	3.5
By industry:					
Construction	3.6	3.2	2.4	0.3	7.0
Manufacturing	4.9	4.5	3.4	3.7	1.3
Transportation and public utilities	3.6	3.5	3.1	3.8	4.8
Wholesale trade	2.5	2.8	2.1	4.5	-0.3
Retail trade	3.9	2.1	2.8	3.1	2.4
FIRE	4.8	1.8	9.5	2.4	4.5
Services	3.8	3.7	3.7	3.0	4.0
By occupation:					
White-collar	4.2	3.5	3.8	3.4	3.4
Blue-collar	4.2	3.8	3.4	3.4	2.0
Service occupations	4.2	3.1	2.4	2.7	3.4
Memo:					
State and local governments	2.7	3.4	2.0	2.7	3.3
	-----Twelve-month percent change----				
Total hourly compensation:	3.5	3.6	3.7	3.6	3.3
Excluding sales workers	3.7	3.9	3.8	3.7	3.3
Wages and salaries	2.7	2.7	3.1	3.1	2.9
Benefit costs	5.6	5.8	5.4	5.0	4.4
By industry:					
Construction	3.9	3.8	3.3	2.4	3.2
Manufacturing	4.0	4.4	4.2	4.1	3.3
Transportation and public utilities	3.3	3.7	3.5	3.5	3.8
Wholesale trade	2.5	2.6	3.0	3.0	2.3
Retail trade	3.3	3.1	2.9	3.0	2.6
FIRE	0.8	2.1	4.1	4.6	4.5
Services	4.2	3.9	3.8	3.5	3.6
By occupation:					
White-collar	3.5	3.6	3.7	3.7	3.5
Blue-collar	3.6	3.8	3.8	3.7	3.2
Service occupations	3.3	3.3	3.0	3.1	2.9
Memo:					
State and local governments	3.6	3.4	3.0	2.8	2.8

1. Seasonally adjusted by the BLS.

stiffer sentences--are getting a lot of attention. In addition, many states are proposing or implementing some type of welfare reform, particularly with regard to work requirements. In contrast, interest in state universal health care plans has waned in many states.

Labor Costs

Growth in labor costs continued to moderate in early 1994. The Employment Cost Index for private industry workers increased at an annual rate of 2.7 percent in the quarter ending in March 1994. In the twelve months ending in March, hourly compensation rose 3.3 percent, down from 3.5 percent during the preceding twelve-month period. The slowing reflected more moderate growth in benefit costs, while the rise in the wage and salary component remained below 3 percent. Costs for health insurance continued to increase at a faster rate than benefit costs on average, but these and most other benefit costs categories decelerated.

By industry, total hourly compensation during the first quarter, measured at an annual rate, increased 2.7 percent in the goods-producing sector. Such compensation increased only 1.3 percent in manufacturing, but it rose 7.0 percent in construction. Although there have been anecdotal reports of shortages of construction workers, unpublished data from the ECI did not show any upward pressure on wages of skilled, blue-collar construction workers; rather, the acceleration was primarily among professional workers in the construction industry (for example, engineers and architects). The acceleration in construction labor costs was concentrated in the benefits component and reflected a sharp increase in nonproduction bonuses such as profit sharing and lump-sum payments. In the service-producing sector, total hourly

EMPLOYMENT COST INDEX OF HOURLY WAGES AND SALARIES
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993				1994
	Mar.	June	Sep.	Dec.	Mar.
Hourly wages and salaries	2.7	2.7	3.1	3.1	2.9
By industry:					
Construction	2.1	2.3	2.4	2.0	2.5
Manufacturing	2.9	2.9	3.0	3.2	2.9
Transportation and public utilities	2.9	3.1	3.1	3.2	3.1
Wholesale trade	2.2	2.3	2.9	2.6	2.0
Retail trade	3.0	2.9	2.9	2.9	2.3
FIRE	-0.2	1.0	3.8	4.2	4.0
Services	3.4	3.2	3.2	3.0	3.2
By occupation:					
White-collar	2.7	2.8	3.4	3.3	3.1
Blue-collar	2.6	2.5	2.7	2.9	2.8
Service occupations	2.1	2.2	2.1	2.1	2.5
Memo:					
State and local governments	3.0	2.8	2.9	2.7	2.7

EMPLOYMENT COST INDEX OF HOURLY BENEFIT COSTS
FOR PRIVATE INDUSTRY WORKERS
(Twelve-month percent changes)

	1993				1994
	Mar.	June	Sep.	Dec.	Mar.
Hourly benefit costs[1]	5.6	5.8	5.4	5.0	4.4
Insurance costs	7.7	7.2	6.8	6.4	5.1
Health care	8.1	7.8	7.2	6.9	5.7
Supplemental pay	3.6	4.3	4.8	2.8	5.3
Retirement and savings	5.4	6.6	4.6	4.9	9.5
Paid leave	3.4	3.7	3.7	3.4	2.9
Legally required	4.9	5.3	4.6	4.4	3.7
By industry:					
Goods-producing	6.3	7.0	6.3	5.6	4.2
Service-producing	4.8	4.9	4.4	4.5	4.5
By occupation:					
White-collar occupations	5.3	5.4	4.8	4.6	4.7
Blue-collar occupations	5.7	6.3	5.9	5.5	4.0
Service occupations	5.4	6.3	5.5	5.5	4.1
Memo:					
State and local governments	4.8	4.4	3.2	2.9	3.0

1. The detail on benefit costs is from unpublished data from the BLS.

compensation rose at a 4.5 percent annual rate in the first quarter--the same pace as in the second half of 1993.

ECI hourly compensation for union workers increased 3.5 percent in the twelve months ended March 1994, down from a 4.2 percent increase over the previous year. This deceleration reflected moderation in the benefits component of compensation; the twelve-month change in wages and salaries for union workers was unchanged at 3.0 percent. Restraint in union wages is also apparent in the data on major collective bargaining agreements: the effective wage increase for new and existing contracts was 2.9 percent in the first quarter, essentially the same as in 1993.

The Teamsters' new Master Freight Agreement seems likely to continue this moderate trend. If approved by the rank and file, the contract with Trucking Management, Inc., would raise base wages about 8 percent over four years. It also increases pension benefits, allows the trucking companies to ship more freight by rail, and permits greater use of part-time workers. The ratification vote is expected to take place in late May.

In contrast to the first-quarter ECI data, nonfarm compensation per hour increased at an annual rate of 5.6 percent in the first quarter, well above the increase of 2.8 percent in the fourth quarter of 1993. However, there are several reasons why this measure of hourly compensation growth in the first quarter is overstated. First, the income estimates made by BEA allowed for the fact that the labor market indicators for the February survey week were not representative of the month as a whole; however, the hours estimate was not modified, and this discrepancy probably caused the growth in nonfarm compensation per hour for the quarter to be overstated by more than a full percentage point. Second, the NIPA convention puts <u>all</u> of the increase in 1994 payroll tax bases

NEGOTIATED WAGE RATE CHANGES
UNDER MAJOR COLLECTIVE BARGAINING SETTLEMENTS[1]
(Percent change except as noted)

				1993				199
	1991	1992	1993	Q1	Q2	Q3	Q4	Q1
All industries								
First-year changes	3.6	2.7	2.3	2.5	2.5	1.1	2.8	3.2
Average over the life	3.2	3.0	2.1	2.7	2.5	1.7	2.0	2.5
Workers affected (in thousands)	1790	1608	2065	289	511	471	794	206
Contracts with escalator provisions[2]								
First-year changes	3.7	2.8	2.6	2.4	1.5	2.5	2.9	2.6
Average over the life	3.1	2.9	1.9	2.6	1.5	1.5	1.9	1.7
Workers affected (in thousands)	714	574	1162	134	140	190	698	75
Contracts without escalator provisions[2]								
First-year changes	3.5	2.6	2.0	2.6	2.9	.2	2.7	3.5
Average over the life	3.3	3.0	2.5	2.8	2.9	1.8	2.2	2.9
Workers affected (in thousands)	1077	1035	902	155	371	280	95	131
Memo:								
Compensation rate changes, all industries[3]								
First-year changes	4.1	3.0	3.0	3.1	3.2	1.0	3.8	3.0
Average over the life	3.4	3.1	2.4	3.2	2.6	1.4	2.5	2.6
Workers affected (in thousands)	1179	919	1382	179	222	284	698	132

1. Contracts covering 1,000 or more workers; estimates exclude lump sum payments and potential gains under cost-of-living clauses.
2. Contracts containing cost-of-living adjustments and/or lump sum payments.
3. Contracts covering 5,000 or more workers.

EFFECTIVE WAGE CHANGE IN MAJOR UNION CONTRACTS AND ITS COMPONENTS

		Contribution of:		
	Total effective wage change	Prior settlements	New settlements	COLAs
1978 - 1982	8.7	3.5	2.6	2.6
1983 - 1987	3.3	2.0	.7	.6
1988	2.6	1.3	.7	.6
1989	3.2	1.5	1.2	.7
1990	3.5	1.9	1.3	.7
1991	3.6	1.9	1.1	.5
1992	3.1	1.9	.8	.4
1993	3.0	1.9	.9	.2
1993:Q1[1]	3.0	1.8	.8	.4
Q2[1]	2.9	1.8	.7	.4
Q3[1]	2.6	1.8	.6	.3
Q4[1]	3.0	1.9	.9	.2
1994:Q1[1]	2.9	1.8	.8	.2

1. Changes over the four quarters ended this period.

LABOR COSTS
(Percent change from preceding period at compound annual rate; based on seasonally adjusted data)

			1993			1994	1993:Q1
	1992[1]	1993[1]	Q2	Q3	Q4	Q1	to 1994:Q1
Compensation per hour							
Total business	5.1	3.1	2.5	3.9	2.8	5.5	3.7
Nonfarm business	5.2	2.8	1.9	3.7	2.8	5.6	3.5
Manufacturing	4.0	2.2	4.9	3.4	3.1	4.7	4.0
Nonfinancial corporations[2]	4.5	2.6	2.4	3.3	2.5	ND	ND
Unit labor costs							
Total business	1.3	.9	2.5	.5	-4.0	5.0	1.0
Nonfarm business	1.5	.8	2.3	-.4	-3.3	5.0	.8
Manufacturing	-.7	-2.8	-1.0	.3	-4.0	-1.7	-1.6
Nonfinancial corporations[2]	.1	.2	-1.5	-.4	-3.4	ND	ND

1. Changes are from fourth quarter of preceding year to fourth quarter of year shown.
2. The nonfinancial corporate sector includes all corporations doing business in the United States with the exception of banks, stock and commodity brokers, and finance and insurance companies; the sector accounts for about two-thirds of business employment.

AVERAGE HOURLY EARNINGS
(Percentage change; based on seasonally adjusted data)[1]

			1993		1994	1994		
	1992	1993	Q3	Q4	Q1	Feb.	Mar.	Apr.
			-Annual rate-			-Monthly rate-		
Total private nonfarm	2.2	2.5	1.9	3.4	3.0	.1	.0	.3
Manufacturing	2.3	3.2	4.2	3.8	2.0	.6	-.2	.1
Durable	2.2	3.4	4.0	5.3	1.6	.6	-.2	.1
Nondurable	2.5	2.6	5.2	.4	3.3	.5	-.1	-.2
Contract construction	1.1	1.2	2.0	-.3	2.0	1.1	-.6	.3
Transportation and public utilities	1.7	1.3	-.6	2.7	4.7	.0	.4	.0
Finance, insurance and real estate	3.5	5.2	4.3	6.1	3.2	-.6	.2	.8
Total trade	2.1	2.4	.9	3.3	3.3	.1	-.1	.3
Services	2.6	2.3	2.2	2.6	3.0	-.1	.0	.2

1. Annual changes are measured from final quarter of preceding year to final quarter of year indicated.

RECENT CHANGES IN CONSUMER PRICES
(Percent change; based on seasonally adjusted data)[1]

	Relative importance, Dec. 1993	1992	1993	1993 Q3	1993 Q4	1994 Q1	1994 Feb.	1994 Mar.
				-----Annual rate------			-Monthly rate-	
All items[2]	100.0	2.9	2.7	2.0	3.3	2.5	.3	.3
Food	15.8	1.5	2.9	2.6	4.9	-1.1	-.3	.1
Energy	7.0	2.0	-1.4	-4.2	1.2	4.7	1.6	.4
All items less food and energy	77.2	3.3	3.2	2.1	3.4	2.9	.3	.3
Commodities	24.4	2.5	1.6	.0	2.4	.6	-.1	.3
Services	52.8	3.7	3.9	3.5	3.7	4.2	.4	.4
Memo:								
CPI-W[3]	100.0	2.9	2.5	1.4	3.1	2.5	.2	.3

1. Changes are from final month of preceding period to final month of period indicated.
2. Official index for all urban consumers.
3. Index for urban wage earners and clerical workers.

RECENT CHANGES IN PRODUCER PRICES
(Percent change; based on seasonally adjusted data)[1]

	Relative importance, Dec. 1993	1992	1993	1993 Q3	1993 Q4	1994 Q1	1994 Feb.	1994 Mar.
				-----Annual rate------			-Monthly rate-	
Finished goods	100.0	1.6	.2	-2.5	-.3	3.9	.5	.2
Consumer foods	22.9	1.6	2.4	3.2	5.2	-.9	-.4	.5
Consumer energy	13.3	-.3	-3.8	-7.4	-14.6	15.3	2.8	.0
Other finished goods	63.7	2.0	.4	-3.5	.9	3.3	.1	.2
Consumer goods	40.3	2.1	-.6	-6.4	1.2	2.6	.2	.1
Capital equipment	23.4	1.7	1.9	2.2	.9	4.0	.1	.3
Intermediate materials[2]	95.2	1.1	.6	-1.0	-.7	3.1	.4	.2
Excluding food and energy	82.3	1.2	1.6	1.0	1.6	1.6	.0	.2
Crude food materials	44.1	3.0	6.6	13.1	15.5	-2.5	1.2	-1.0
Crude energy	34.4	2.3	-13.7	-28.1	-26.8	26.7	-6.4	9.3
Other crude materials	21.5	5.7	11.6	-4.5	19.6	19.0	2.0	.9

1. Changes are from final month of preceding period to final month of period indicated.
2. Excludes materials for food manufacturing and animal feeds.

stemming from OBRA-93, as well as the normal increase in the social security tax base, into the first-quarter estimate while the ECI measures these increases as they become effective. This difference in treatment perhaps accounts for another 1/2 percentage point of the gap between the two measures. Third, increases in the number of overtime hours worked boost average nonfarm compensation per hour, whereas the ECI increases only when overtime pay rates rise. Finally, the ECI is fixed-weighted, while nonfarm compensation is not. This means that changes in the industrial and occupational distribution of employment and hours affect nonfarm compensation but do not affect the ECI. BLS estimates of the proportion of recent monthly changes in average hourly earnings attributable to mix shifts suggest that such shifts were considerable in the first quarter.

Average hourly earnings of production or nonsupervisory workers on nonfarm payrolls, the only data on labor costs currently available for the second quarter, increased 0.3 percent in April. Over the twelve months ending in April, hourly earnings increased 2.6 percent, up slightly from the rate of increase one year earlier. Earnings increases over this past year were within a tenth or two of the gains posted over the same period of a year earlier in most major sectors. The exception was in finance, insurance, and real estate, where increased commissions produced a significant boost to hourly earnings.

Prices

Price data for April will be released in the next two days. Through March, however, inflation remained subdued. Consumer price increases were modest in March, as were producer price increases at the final and intermediate stages of processing. By contrast, crude materials prices have continued to rise rapidly, as they did during

INFLATION RATES EXCLUDING FOOD AND ENERGY

	Percent change from twelve months earlier		
	Mar. 1992	Mar. 1993	Mar. 1994
CPI	3.9	3.4	2.9
Goods	3.1	2.6	1.0
Alcoholic beverages	3.2	1.8	1.3
New vehicles	2.4	2.2	3.6
Apparel	3.6	2.1	-0.4
House furnishings	1.8	-0.1	1.1
Housekeeping supplies	0.4	0.8	2.1
Medical commodities	7.8	3.9	2.7
Entertainment	2.3	1.8	1.6
Tobacco	8.0	10.7	-7.9
Services	4.2	3.7	3.8
Owners' equivalent rent	3.8	3.0	3.4
Tenants' rent	3.1	1.8	2.7
Other renters' costs	3.5	4.1	3.5
Airline fares	-2.7	9.2	12.7
Medical care	7.8	6.6	5.4
Entertainment	4.2	3.0	4.8
Auto financing	-12.5	-8.8	-4.4
Tuition	9.3	8.6	6.8
PPI finished goods	2.6	1.9	0.4
Consumer goods	2.9	2.1	-0.6
Capital goods, excluding computers	3.0	2.6	2.3
Computers	-19.2	-15.7	-9.9
PPI intermediate materials	-0.2	1.9	1.0
PPI crude materials	-3.1	7.9	10.9
Factors affecting price inflation			
ECI hourly compensation[1]	4.2	3.5	3.3
Goods-producing	4.6	4.0	3.2
Service-producing	4.0	3.2	3.4
Civilian unemployment rate[2,3,4]	7.3	7.0	6.4
Capacity utilization[2] (manufacturing)	78.3	80.1	82.8
Inflation expectations[3,5]			
Mean of responses	3.7	4.1	4.5
Median, bias-adjusted[6]	4.0	4.0	3.9
Non-oil import price[7]	0.1	0.1	2.0
Consumer goods, excluding autos, food, and beverages	1.8	1.3	1.1
Autos	1.1	0.5	4.1

1. Private industry workers, periods ended in March.
2. End-of-period value.
3. Latest reported value: April.
4. Data for 1994 are not directly comparable with earlier values because of a redesign of the CPS in January 1994.
5. Michigan Survey one-year-ahead expectations.
6. Median adjusted for average downward bias of 0.9 percentage points, relative to actual inflation, since 1978.
7. BLS import price index (not seasonally adjusted), periods ended in March.
n.a. Not available.

much of 1993. Crude material costs constitute a relatively small part of the value of finished goods, however, and such cost increases usually do not impart much thrust to finished goods prices in the absence of more general cost pressures.

Consumer prices--both overall and excluding food and energy prices--rose 0.3 percent in March. Over the twelve months ended in March, the CPI was up 2.5 percent, while the CPI excluding food and energy advanced 2.9 percent; both of these increases were about 1/2 percentage point less than over the preceding twelve months.

Consumer food prices were little changed, on balance, in March. Prices of fruits and vegetables--which had risen 9 percent during the second half of 1993 but then retraced much of that increase in January and February--moved up 0.6 percent. But other food items posted small price increases. At the commodity level, spot and futures prices of most farm products have dropped substantially since the last Greenbook. Livestock prices have been depressed by high levels of marketings, and, with spring planting off to a rapid start, futures prices for corn and soybeans have fallen sharply. Because stocks of several crops remain unusually low, futures prices will likely remain quite sensitive to changes in weather over the next few months. Meanwhile, a recent surge in the price of raw coffee likely will be percolating through to consumers in coming months.

Energy prices at the consumer level rose moderately in March. The increase owed almost entirely to a 1.9 percent rise in natural gas prices, while the other major energy components were little changed on a seasonally adjusted basis in March. However, crude oil prices moved up sharply in April, pointing to more sizable increases in energy prices in coming months.

PRICES OF SELECTED SPOT COMMODITIES
(Not seasonally adjusted)

Commodity (units)	Current price ($)	Percent change during week ended			Percent change from	
		Apr 26	May 3	May 10	March 15[1]	1 year ago
	-------------------Industrial materials-----------------					
Metals:						
Copper (lb.)	1.010	3.3	3.2	4.1	5.2	16.1
Steel scrap (ton)	128.500	.0	-1.8	-4.8	-7.9	20.7
Aluminum, London (lb.)	.592	-.6	2.7	1.0	2.6	15.4
Lead (lb.)	.345	.0	.0	.0	.0	3.0
Zinc (lb.)	.460	-3.3	4.0	1.7	4.2	-6.9
Tin (lb.)	3.676	-.3	1.2	.4	2.7	-2.1
Textiles and fibers:						
Cotton (lb.)	.780	-1.2	5.3	-3.8	6.8	38.2
Burlap (yd.)	.275	.0	.0	.0	.0	12.2
Miscellaneous materials:						
Hides (lb.)	.875	1.2	.0	1.7	10.8	6.7
Rubber (lb.)	.515	.0	.5	1.0	5.1	17.6
	-------------------Other commodities-------------------					
Precious metals:						
Gold (oz.)	380.150	.3	.2	1.3	-1.8	7.0
Silver (oz.)	5.340	.4	1.2	1.9	-1.7	24.8
Platinum (oz.)	393.750	2.3	1.0	-1.4	-2.4	3.8
Forest products:						
Lumber (m. bdft.)	370.000	-10.9	7.0	21.3	-10.8	33.1
Plywood (m. sqft.)	322.000	-.7	4.1	5.9	7.3	3.9
Petroleum:						
Crude oil (barrel)	16.300	6.9	-1.2	1.6	14.0	-13.5
Gasoline (gal.)	.499	4.5	-2.6	1.4	10.8	-18.0
Fuel oil (gal.)	.482	1.0	-.6	1.8	.3	-13.7
Livestock:						
Steers (cwt.)	69.000	-.7	-3.0	-4.2	-8.6	-15.9
Hogs (cwt.)	43.500	-2.3	-3.5	4.8	-4.4	-5.4
Broilers (lb.)	.620	.4	-.7	10.5	10.9	1.2
U.S. farm crops:						
Corn (bu.)	2.485	.8	.8	-3.5	-9.5	12.2
Wheat (bu.)	3.573	1.8	4.3	-1.9	1.5	3.0
Soybeans (bu.)	6.585	1.7	-1.1	.0	-3.6	11.0
Other foodstuffs:						
Coffee (lb.)	1.035	3.3	11.4	17.6	39.9	102.9

1. Week of the March Greenbook.

Excluding food and energy, the CPI increased 0.3 percent in March after a similar rise in February. Prices of new motor vehicles were up 0.5 percent, about the same as in February, reflecting strong demand in that industry as well as an expensive yen.[8] However, prices of many other durable goods declined in March. Among nondurable goods, apparel prices increased 0.5 percent in March after declining about the same amount over the previous two months. The slower-than-normal introduction of spring merchandise likely caused seasonal adjustment problems during the first quarter, exaggerating the size of the January and February declines and the March increase. The prices of non-energy services rose 0.4 percent in March; shelter costs were up the same amount. The volatile airfares category moved up 1.4 percent in March, but auto finance costs were unchanged after rising sharply in February.

INFLATION EXPECTATIONS
(Michigan survey of consumers)

		Expected annual rate of inflation during the ...			
		Next twelve months		Next five to ten years	
		Mean	Median	Mean	Median
1993:	Dec	3.8	3.2	4.8	3.8
1994:	Jan	3.5	2.9	4.8	3.2
	Feb	3.7	2.8	4.7	3.2
	Mar	4.4	3.0	5.4	3.6
	Apr	4.5	3.0	5.0	3.2

Surveys of consumer price expectations have given mixed signals over the past two months. The Michigan survey showed average expectations of inflation for the next twelve months rising to almost 4-1/2 percent in March and April. In addition, this survey's measure of inflation expectations over the next five to ten years

8. In May, the Big Three firms announced additional price increases on selected vehicles, mainly light trucks, ranging from $100 to $330.

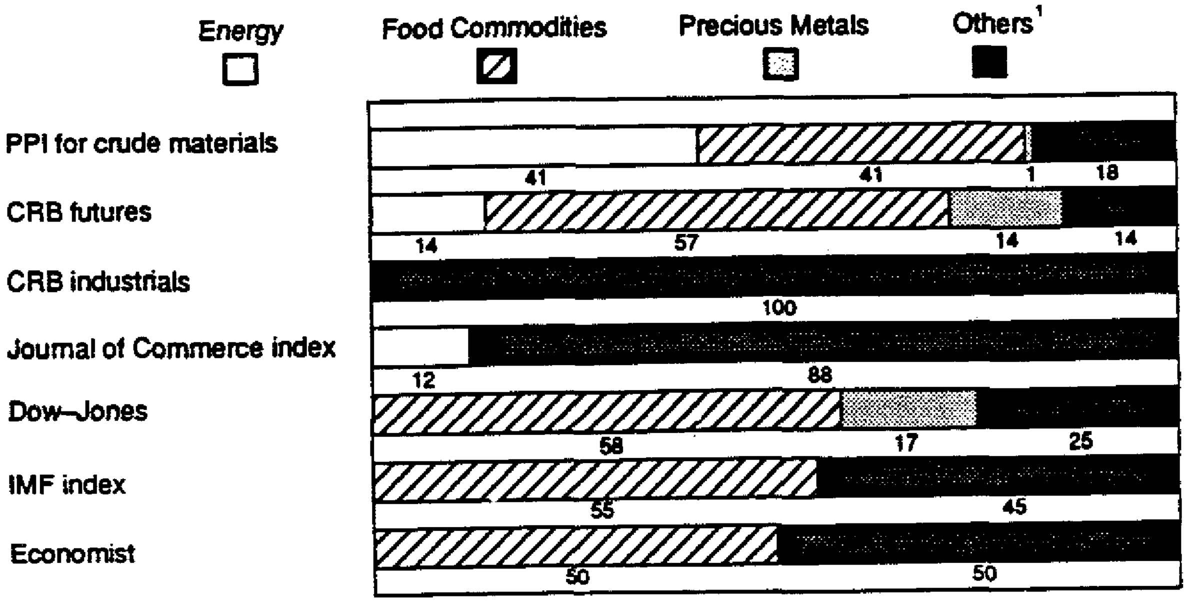
SPOT PRICES OF SELECTED COMMODITIES[1]

	Last observ-ation	1992	1993	Dec 93 to Mar 15[3]	Mar 15[3] to date	Memo: Year earlier to date
		Percent change[2]				
1. PPI for crude materials[4]	Mar	3.3	-0.5	4.4	n.a.	2.1
1a. Foods and feeds	Mar	3.0	6.6	2.2	n.a.	5.3
1b. Energy	Mar	2.3	-13.7	6.1	n.a.	-5.9
1c. Excluding food and energy	Mar	5.7	11.6	5.9	n.a.	10.9
1d. Excluding food and energy, seasonally adjusted	Mar	6.1	11.6	4.4	n.a.	10.9
2. Commodity Research Bureau						
2a. Futures prices	May 10	-2.9	11.6	1.7	-1.9	8.1
2b. Industrial spot prices	May 10	-0.7	-0.0	5.1	2.6	10.8
3. Journal of Commerce industrials	May 10	5.0	-4.0	3.5	3.1	3.8
3a. Metals	May 10	1.9	-2.6	3.7	0.1	4.2
4. Dow-Jones Spot	May 10	10.4	5.1	4.1	2.1	13.2
5. IMF commodity index[4]	Mar	-2.6	2.4	2.9	n.a.	6.4
5a. Metals	Mar	-3.1	-14.4	4.4	n.a.	-4.8
5b. Nonfood agricultural	Mar	2.4	0.2	6.5	n.a.	5.2
6. Economist (U.S. dollar index)	May 03	1.6	9.1	5.3	-0.3	12.9
6a. Industrials	May 03	4.5	4.4	8.7	-5.0	8.5

1. Not seasonally adjusted.
2. Change is measured to end of period, from last observation of previous period.
3. Week of the March Greenbook.
4. Monthly observations. IMF index includes items not shown separately.

n.a. Not available.

Index Weights



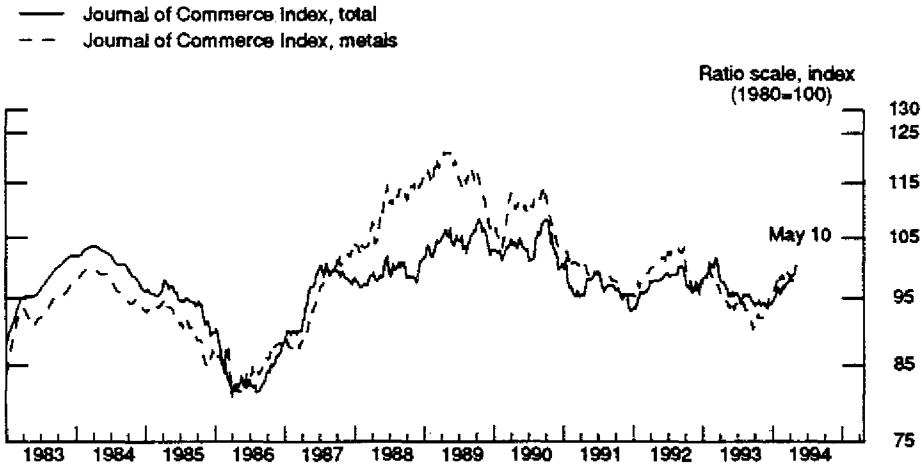
1. Forest products, industrial metals, and other industrial materials.

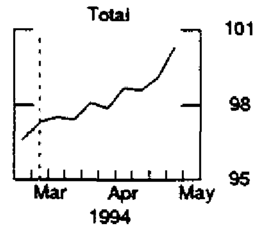
stood at 5 percent in April, 1/4 point above its level in January and February. However, the median of expectations from the Michigan survey--which is considerably less volatile than the mean--was little changed over this period, both for the one-year and for the five- to ten-year expectations. Finally, in the Conference Board survey, expectations for prices over the next year held about unchanged at 4-1/4 percent in March and April.

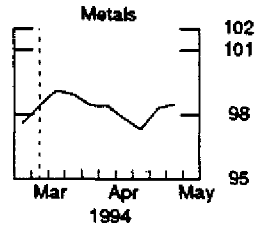
The PPI for finished goods rose 0.2 percent in March. Energy prices were unchanged after their weather-related jump in February, but food prices were up notably after declining in the preceding two months. Excluding food and energy items, the PPI also increased 0.2 percent in March. Capital equipment prices posted the largest increases: the prices of heavy trucks jumped more than 2 percent after posting no increase in February. Over the twelve months ended in March, the overall PPI increased only 0.2 percent, while the PPI excluding food and energy was up 0.4 percent.

Spot prices of industrial commodities have increased further, on balance, in the period since the last Greenbook. Among the metals, steel scrap prices have turned down since mid-March, but prices of most other industrial metals have moved up. In addition, prices of other industrial materials, such as cotton and hides, have increased notably. Indexes of industrial commodity prices hesitated a bit in early April but have since resumed their upward trends. The *Journal of Commerce* index has moved up another 3 percent, on net, since the last Greenbook, and the Knight-Ridder CRB spot price index has increased by roughly the same amount. Precious metals prices declined moderately from mid-March to mid-April but have since turned up.

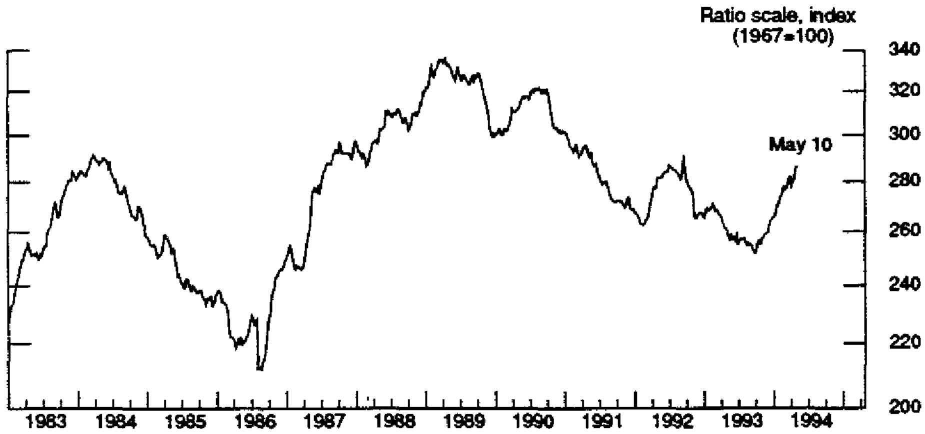
COMMODITY PRICE MEASURES *

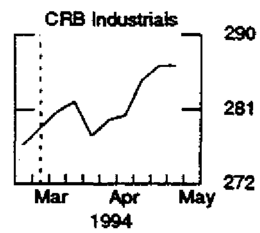




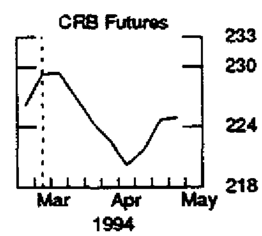


CRB Spot Industrials





CRB Futures



* Weekly data, Tuesdays; Journal of Commerce data monthly before 1985

Dashed lines indicate week of last Greenbook.

DOMESTIC FINANCIAL DEVELOPMENTS

SELECTED FINANCIAL MARKET QUOTATIONS[1]
(Percent except as noted)

Instrument	1993 Mid-Oct lows	1994 Feb 3	1994 FOMC,* Mar 22	1994 May 10	Change to May 10, 1994 From Mid-Oct lows	From Feb 3	From FOMC,* Mar 22
SHORT-TERM RATES							
Federal funds[2]	3.07	3.07	3.22	3.75	.68	.68	.53
Treasury bills[3]							
3-month	3.01	3.13	3.52	4.24	1.23	1.11	.72
6-month	3.09	3.27	3.87	4.76	1.67	1.49	.89
1-year	3.23	3.52	4.19	5.18	1.95	1.66	.99
Commercial paper							
1-month	3.13	3.16	3.64	4.39	1.26	1.23	75
3-month	3.23	3.25	3.87	4.73	1.50	1.48	.86
Large negotiable CDs[3]							
1-month	3.08	3.11	3.54	4.38	1.30	1.27	.84
3-month	3.22	3.25	3.80	4.69	1.47	1.44	.89
6-month	3.23	3.41	4.07	5.10	1.87	1.69	1 03
Eurodollar deposits[4]							
1-month	3.06	3.06	3.50	4.38	1.32	1.32	.88
3-month	3.25	3.25	3.81	4.75	1.50	1.50	.94
Bank prime rate	6.00	6.00	6.00	6.75	.75	.75	.75
INTERMEDIATE- AND LONG-TERM RATES							
U.S. Treasury (constant maturity)							
3-year	4.06	4.60	5.49	6.52	2.46	1.92	1.03
10-year	5.19	5.81	6.55	7.33	2.14	1.52	.78
30-year	5.78	6.31	6.94	7.50	1.72	1.19	.56
Municipal revenue[5] (Bond Buyer)	5.41	5.49	6.06	6.58	1.17	1.09	.52
Corporate--A utility, recently offered	6.79	7.35	7.76	8.46	1.67	1.11	.70
Home mortgages[6]							
FHLMC 30-yr. fixed rate	6.74	6.97	7.76	8.53	1.79	1.56	.77
FHLMC 1-yr. adjustable rate	4.14	4.12	4.60	5.25	1.11	1.13	.65

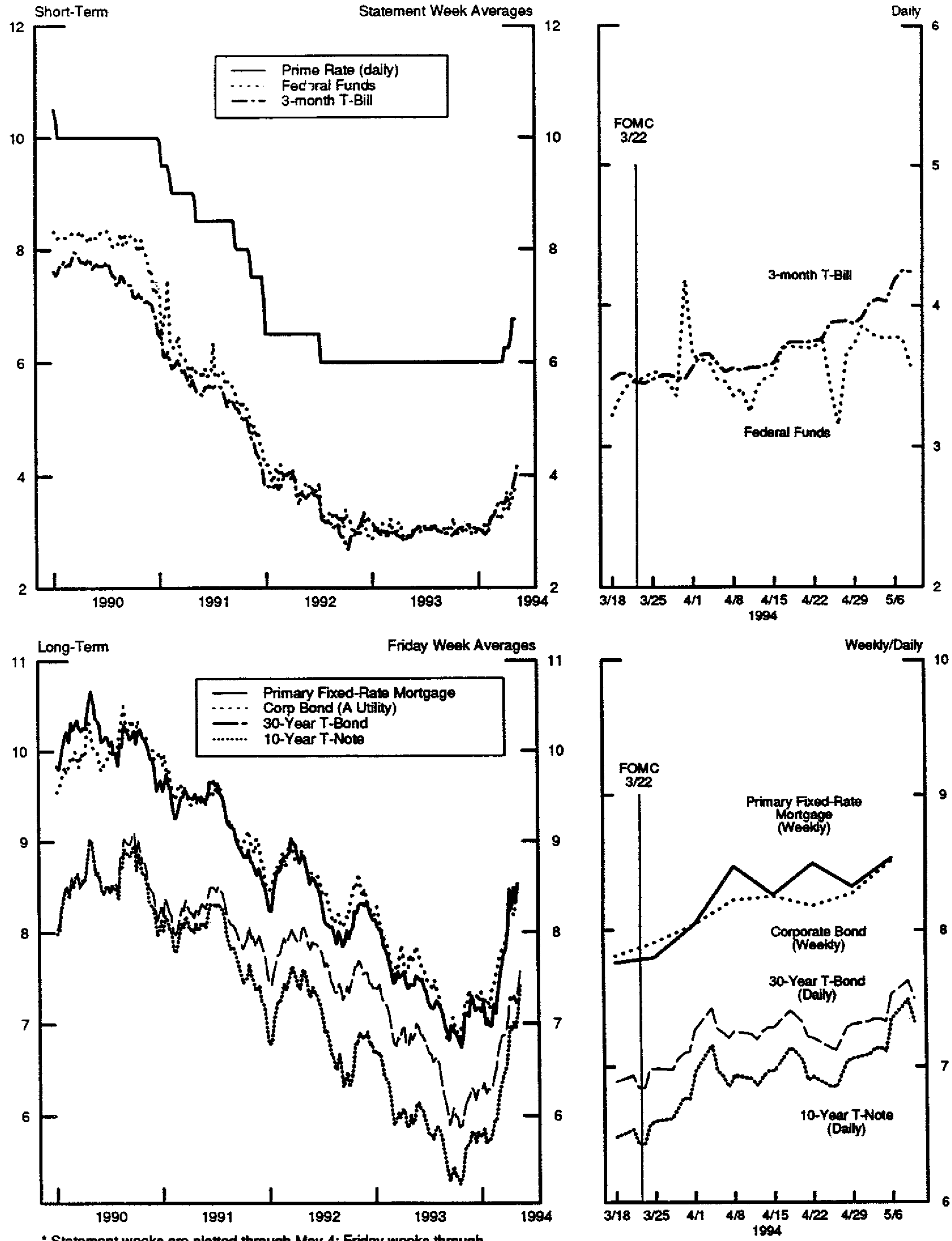
Stock exchange index	Record high Level	Record high Date	1989 Low, Jan. 3	1994 FOMC,* Mar 22	1994 May 10	Percentage change to May 10 From record high	From 1989 low	From FOMC,* Mar 22
Dow-Jones Industrial	3978.36	1/31/94	2144.64	3864.85	3656.41	-8.09	70.49	-5.39
NYSE Composite	267.71	2/2/94	154.00	259.91	246.94	-7.76	60.35	-4.99
NASDAQ (OTC)	803.93	3/18/94	378.56	797.30	725.00	-9.82	91.52	-9.07
Wilshire	4804.31	2/2/94	2718.59	4705.03	4435.99	-7.67	63.17	-5.72

1. One-day quotes except as noted.
2. Average for two-week reserve maintenance period closest to date shown. Last observation is average to date for maintenance period ending May 11, 1994.
3. Secondary market.

* Rates are as of the close on March 21, 1994.

4. Bid rates for Eurodollar deposits at 11 a.m. London time.
5. Most recent observation based on one-day Thursday quote and futures market index changes.
6. Quotes for week ending Friday previous to date shown.

Selected Interest Rates*
(percent)



* Statement weeks are plotted through May 4; Friday weeks through May 6, 1994.

Against a backdrop of two additional quarter-point increases in the federal funds rate, release of data interpreted as showing considerable strength in the economy, and weakness in the foreign exchange value of the dollar, market interest rates rose across the maturity spectrum during the intermeeting period. Money market rates are up 75 to 100 basis points. Major commercial banks followed the System tightening actions with hikes in the prime rate, first of 25 and then of 50 basis points, bringing the rate to 6-3/4 percent and restoring the previous wide difference between the prime rate and overnight funding costs.

Longer-term interest rates are up 50 to 100 basis points since the last FOMC meeting, with the sharpest gains occurring at intermediate maturities. Since the first move toward restraint, announced on February 4, the yield on the three-year Treasury note has risen 2 percentage points, while that on the thirty-year bond has increased 1-1/4 percentage points. Major equity price indexes are down 5 percent to 9 percent since the March meeting.

As mutual fund investors responded to the erosion of securities prices, net inflows to stock funds have shrunk while bond funds have suffered net redemptions. At times, bond fund managers have sold securities in anticipation of redemptions, thereby contributing to rate pressures, especially in the markets for junk bonds, tax-exempt bonds, and mortgage securities. Bond funds stabilized in late April, but renewed market turbulence in early May may have caused further skittishness on the part of bond investors. The weakening of stock and bond fund inflows gave a boost to M2 as money moved into retail money market mutual funds. Although its deposit components were weak, M2 grew moderately during the intermeeting period, bringing it closer to the middle of its 1 percent to 5 percent growth cone. This relative strength showed through to M3, which was lifted above the bottom of its 0 percent to 4 percent growth cone.

Gross public issuance of stocks and bonds by nonfinancial firms has dropped substantially in response to deteriorating market conditions. Business borrowing has continued to tilt toward bank and finance company loans and shorter-maturity notes. Higher yields also have contributed to a marked slowing in gross bond issuance by state and local governments, while a drop in the federal deficit has curbed Treasury borrowing. In the household sector, consumer credit has grown robustly, boosted by brisk sales of cars and mobile homes. Data on home mortgage borrowing are sketchy, but available indicators suggest some slackening of demand recently.

Mutual Funds

As net asset values of mutual fund shares declined, investors reduced their purchases of bond and stock funds in March and April (table). This in turn exacerbated the decline in securities prices, particularly in market segments heavily dependent on mutual fund investment. Bond funds accounted for most of the slowdown, experiencing hefty net redemptions in each month. Stock funds, in contrast, had net inflows despite a substantial decline in major share price indexes.

Among stock funds, net sales of international funds were down in March and April from the pace of recent quarters. Press reports attributed much of the slowdown to funds that invest in the emerging markets of the Pacific Rim and Latin America, areas that suffered major market corrections. Net sales of domestic equity funds were little changed from the pace of recent quarters, reportedly on the strength of inflows from IRA investors.

GNMA funds--which began to experience outflows last fall--posted the largest net outflows in March and April. Redemptions of shares from high-yield bond funds led to a liquidity shortfall for some funds, forcing them to sell junk bonds; with this additional pressure on the market, spreads on junk bonds have widened 40 to 50 basis points since the beginning of April. Outflows from tax-exempt bond funds over the March-April period exerted upward pressure on municipal yields, but this pressure appears to have been offset recently by a step-up in individuals' direct purchases in the market.

NET SALES AND EXCHANGES OF MUTUAL FUNDS CLASSIFIED BY TYPE
(Billions of dollars, monthly rate)

	1993				1994			Memo: Levels in
	Q1	Q2	Q3	Q4	Q1	March	April[e]	Mar. 1994
Total stock	10.7	10.6	10.9	14.7	13.8	8.0	9.9	766.2
International	.9	2.2	4.1	5.8	6.2	1.8	3.1	130.7
Domestic	9.8	8.4	6.8	8.9	7.6	6.2	6.8	635.5
Total bond	11.8	12.2	12.9	9.5	3.8	-5.2	-4.2	734.9
GNMA	.7	.6	.4	-.9	-1.6	-2.7	-2.0	66.0
High yield	1.2	1.1	.3	1.1	0.0	-1.6	-.6	47.1
Tax-exempt	4.5	4.1	3.9	2.7	1.0	-1.4	.1	241.4
International	-.3	.3	1.2	.7	.4	-.4	-.7	38.1
Other	5.7	6.1	7.1	5.9	4.0	.9	-1.0	342.3

[e] Estimated
Source: Investment Company Institute

Money and Bank Credit

In April, M2 grew at a 3 percent annual rate, down somewhat from the 5-1/4 percent pace recorded in March, placing this aggregate near the midpoint of its growth cone. M1 contracted in April, with NOW accounts falling at an 8 percent annual rate after growing modestly the previous month. The weakness in NOW accounts probably reflected the slow adjustment of deposit rates to higher market interest rates and some contribution from lower-than-expected tax payments. Rising opportunity costs and the fall-off of mortgage refinancing activity contributed to a decline in demand deposits in April. Currency growth slowed noticeably in April, to 9 percent from its double-digit pace of recent months.

The non-M1 part of M2 grew at a 5 percent annual rate in April, principally on the strength of retail money market mutual funds as many investors shied away from longer-term mutual funds. Savings and MMDAs, held down by sluggish upward adjustment in deposit rates and the slowdown in mortgage refinancings, posted a small runoff in April. Small time deposits declined at only a 2 percent annual rate in April, compared with rates of decline of 5 percent in March and 8 percent for the first quarter as a whole. The slower runoffs in this component reflected the faster adjustment of rates on retail CDs, compared with rates on liquid deposits, to increases in market rates. In addition, the diminished appeal of bond and stock funds lent some support to small time deposits. M2 plus bond and stock mutual funds was about flat over the March-April period, reflecting capital losses on the mutual fund portion.

The growth of M2 carried over to M3, which expanded at a 3 percent annual rate in April following a 2-1/2 percent rate of growth in March. Despite declines in large time deposits and institution-only money market mutual funds, increases in the term RP and term Eurodollar components supported the non-M2 part of M3.

The rapid expansion of bank credit--10-1/2 percent in March and 11 percent in April--was largely attributable to exceptional growth of securities holdings. The growth of other securities was primarily the result of an accounting change that limited banks'

MONETARY AGGREGATES
(Based on seasonally adjusted data)

Aggregate or component	1993	1993 Q4	1994 Q1	1994 Feb.	1994 Mar.	1994 Apr (pe)	1993:Q4 to Apr 94 (pe)	Level (bil. $) Mar 94
Aggregate	Percentage change (annual rate)[1]							
1. M1	10.5	9.4	6.0	5.4	4.0	-2	4¼	1142.4
2. M2	1.3	1.9	2.0	-1.2	5.2	3	2½	3581.3
3 M3	0.5	2.2	0.0	-8.0	2.5	3	½	4209 3
Selected components								
4. M1-A	11.7	10.6	9.6	10.0	5.1	2	7½	730.6
5. Currency	10.3	9.0	11.9	14.4	11.7	9	11½	332.4
6. Demand deposits	13.3	12.1	7.9	6.2	-0.9	-4	4¼	390.1
7. Other checkable deposits	8.4	7.3	-0.3	-2.6	2.0	-8	-1½	411.8
8. M2 minus M1	-2.4	-1.4	0.1	-4.2	5.7	5	1½	2438.9
9. Overnight RPs and Eurodollars, n.s.a.	9.9	30.4	22.4	-24.4	74.6	-20	17¾	97.4
10. General-purpose and broker-dealer money market funds	-2.1	1.2	0.0	-14.1	17.1	46	10½	348.6
11. Commercial banks	-1.0	-0.6	0.7	-0.5	-2.2	-3	-½	1252.8
12. Savings deposits	4.2	3.6	4.3	1.5	-1.4	-4	1¾	790.2
13. Small time deposits	-8.6	-7.4	-5.2	-3.9	-3.6	-2	-4	462.6
14. Thrift institutions	-6.1	-5.3	-4.4	-5.8	0.8	0	-3	738.9
15. Savings deposits	0.6	-0.4	0.7	-0.8	5.6	2	1½	431.9
16. Small time deposits	-13.8	-12.0	-11.1	-12.3	-5.4	-4	-8¾	307.1
17. M3 minus M2	-3.6	3.7	-10.6	-44.4	-12.5	4	-10¾	628.0
18. Large time deposits	-6.9	-1.5	-4.5	-20.8	-10.0	-4	-6¾	332.4
19. At commercial banks[3]	-6.6	-0.6	-3.2	-24.1	-9.2	-6	-6	271.4
20. At thrift institutions	-8.2	-6.9	-9.5	-5.8	-15.6	6	-7	60.9
21. Institution-only money market mutual funds	-5.4	8.8	-26.8	-98.4	3.4	-3	-22½	177.4
22. Term RPs, n.s.a.	16.9	-5.8	-22.8	-39.7	19.2	31	-8	89.1
23. Term Eurodollars, n.s.a.	-1.3	24.7	-12.9	57.1	-49.4	54	-½	44.3
	Average monthly change (billions of dollars)[2]							
Memo								
24. Managed liabilities at com'l. banks (lines 25 + 26)	5.6	0.1	23.2	13.4	34.0	37	...	902.8
25. Large time deposits, gross	-2.3	2.1	-3.3	-5.1	-6.3	1	...	333.7
26. Nondeposit funds	7.8	-1.9	26.5	18.5	40.3	36	...	569.1
27. Net due to related foreign institutions	4.5	-2.2	12.7	20.0	21.5	13	...	157.8
28. Other[4]	3.3	0.3	13.8	-1.4	18.7	22	...	411.3
29. U.S. government deposits at commercial banks[5]	0.2	-0.3	0.2	2.5	-2.9	10	...	23.1

1. For years, "percentage change" is percentage change in quarterly average from fourth quarter of preceding year to fourth quarter of specified year. For quarters, it is the percentage change in quarterly average from preceding quarter to specified quarter, annualized.
2. For years, "average monthly change" is the dollar change from December to December, divided by 12. For quarters, it is the dollar change from the last month of the preceding quarter to the last month of the specified quarter, divided by 3.
3. Net of holdings of money market mutual funds, depository institutions, U.S. government, and foreign banks and official institutions.
4. Borrowing from other than commercial banks in the form of federal funds purchased, securities sold under agreements to repurchase, and other liabilities for borrowed money (including borrowing from the Federal Reserve and unaffiliated foreign banks, loan RPs, and other minor items). Data are partially estimated.
5. Treasury demand deposits and note balances at commercial banks.

ability to net off-balance-sheet items, such as swaps, options, and futures, when reporting the fair value of these contracts on the balance sheet. This change accounted for virtually all of the $25 billion increase in other securities since the beginning of the year and accounted for about 2 percentage points of total bank credit growth in both March and April.[1] During March and April, growth of U.S. government securities averaged more than 20 percent at an annual rate. According to the May Senior Loan Officer Survey and informal contacts with bankers, some banks view intermediate Treasuries as good buys that offer a sizable margin over the cost of short-term borrowed funds.

Loan growth in March and April was led by the business and consumer categories. Business loan growth was boosted significantly by the Paramount-VIACOM merger. In addition, according to the May Senior Loan Officer Survey, business loans, which resumed growing this year, have been strong because of a pickup in external financing needs. Moreover, as long rates have risen and share prices have fallen, some companies may have substituted bank credit for bond and equity funding. The survey also indicated a continued easing of terms and standards on business loans for all sizes of firms.

Consumer lending was robust in March and April. Banks noted the increase in demand for consumer loans while also reporting increased willingness to extend such credit. Real estate loans, which have been quite weak since the beginning of the year, accelerated only slightly in April. Given the rise in mortgage rates in the first quarter, some slowdown from the exceptionally

1. This accounting change, FASB Interpretation No. 39, was to be adopted by all banks for their Call Reports on March 31, 1994. Since the first of the year, banks have implemented the change at different times, thereby boosting growth in each month through April.

COMMERCIAL BANK CREDIT AND SHORT- AND INTERMEDIATE-TERM BUSINESS CREDIT[1]
(Percentage change at annual rate, based on seasonally adjusted data)

Type of credit	Dec. 1992 to Dec. 1993	1993 Q4	1994 Q1	1994 Feb.	1994 Mar.	1994 Apr. p	Level, Apr. 1994 p ($billions)
	Commercial bank credit						
1. Total loans and securities	5.2	4.1	7.9	5.5	10.5	11.1	3,195.1
2. Securities	8.5	2.8	17.2	6.9	25.7	23.0	968.2
3. U.S. government	9.6	3.7	11.6	0.0	25.2	18.8	759.4
4. Other	4.4	-.7	39.3	33.0	27.3	38.6	208.8
5. Loans	4.0	4.7	4.0	4.9	4.1	6.1	2,226.9
6. Business	-1.8	-2.0	8.3	4.7	9.5	12.9	602.1
7. Real estate	4.5	7.8	-.1	-1.5	-.3	2.8	942.9
8. Consumer	9.0	11.3	10.6	10.1	12.7	17.9	407.3
9. Security	35.1	25.3	-18.3	19.3	16.1	-72.0	78.3
10. Other	-.6	-10.8	7.7	19.8	-14.0	9.9	196.3
	Short- and intermediate-term business credit						
11. Business loans net of bankers acceptances	-2.0	-1.7	8.3	5.0	9.9	10.6	592.3
12. Loans at foreign branches[2]	-12.1	1.9	-7.4	-44.4	28.8	45.1	22.1
13. Sum of lines 11 and 12	-2.5	-1.6	7.8	3.4	10.3	11.8	614.4
14. Commercial paper issued by nonfinancial firms	4.4	-8.2	-12.2	-10.6	-29.8	-11.0	151.5
15. Sum of lines 13 and 14	-1.1	-3.0	3.6	.5	2.1	7.1	765.8
16. Bankers acceptances, U.S. trade-related[3,4]	-12.2	-22.5	17.9	23.6	17.4	n.a.	21.0[5]
17. Loans at finance companies[4]	-.5	.1	9.3	9.4	18.3	n.a.	312.9[5]
18. Total (sum of lines 15, 16, and 17)	-1.2	-2.5	5.5	3.3	6.9	n.a.	1,095.2[5]

1. Except as noted, levels are averages of Wednesday data and percentage changes are based on averages of Wednesday data; data are adjusted for breaks caused by reclassification; changes are measured from preceding period to period indicated.
2. Loans to U.S. firms made by foreign branches of domestically chartered banks.
3. Acceptances that finance U.S. imports, U.S. exports, and domestic shipment and storage of goods.
4. Changes are based on averages of month-end data.
5. March 1994.
p Preliminary.
n.a. Not available.
Note: Data have been benchmarked to the December 1993 Call Report.

strong fourth-quarter growth would have been expected. Senior bank loan officers attributed some of the deceleration to the slowdown in mortgage refinancing, as the refinanced loans originated late last year moved to mortgage pools.

Business Finance

With yields on corporate bonds up 70 basis points since the last FOMC meeting, the opportunities to refinance outstanding debt have diminished further. As a result, gross issuance of public bonds by nonfinancial corporations dropped to an estimated $6-3/4 billion in April, compared with the $11 billion monthly average in the first quarter of 1994. Very little of the recent issuance has been in maturities of thirty years or longer, and some bonds were issued with put features designed to address investor concerns about further increases in yields. The volume of floating-rate offerings by nonfinancial corporations picked up in the past two months, as spreads on these instruments tightened. In contrast, spreads on fixed rate bonds widened a bit in the investment-grade sector and quite sharply in the speculative-grade sector.

Several junk bond offerings were postponed because of adverse market conditions. Market reports suggested that the private placement market was an alternative for some high-yield issuers, as the improved financial condition of life insurance companies made them more willing to invest in this sector.

Rising interest rates have been a major factor in the decline of stock prices generally since the last FOMC meeting. But not surprisingly, some "interest-sensitive" industrial groups have been especially hard hit. The Dow Jones utility average has now fallen more than 20 percent since the beginning of the year. Stock prices of securities firms also are sharply lower, partly reflecting expectations of a loss in profits with the prospective end of the

GROSS OFFERINGS OF SECURITIES BY U.S. CORPORATIONS[1]
(Billions of dollars; monthly rates; not seasonally adjusted)

			--1993--	----------1994----------			
	1992	1993	Q4	Q1 p	Feb. p	Mar. p	Apr. p
All U.S. corporations	40.73	53.23	51.68	53.36	48.26	54.11	31.31
Bonds	33.80	43.85	40.87	44.89	39.52	43.54	25.80
Stocks	6.93	9.38	10.81	8.47	8.74	10.57	5.51
Nonfinancial corporations							
Bonds	13.67	16.20	12.41	11.11	10.27	9.81	6.77
Sold in U.S.	12.83	15.56	12.10	10.60	10.00	9.50	6.00
Utility	5.33	7.34	5.15	4.64	4.10	4.45	2.50
Industrial	7.50	8.22	6.96	5.97	5.90	5.05	3.50
Sold abroad	0.84	0.64	0.31	0.51	0.27	0.31	0.77
By quality[2]							
Aaa and Aa	2.18	2.56	1.78	0.80	0.62	1.03	0.84
A and Baa	7.74	8.71	5.78	5.89	4.95	6.15	3.42
Less than Baa	2.86	4.17	4.45	3.91	4.43	2.32	1.75
Unrated or rating unknown	0.09	0.09	0.10	0.00	0.00	0.00	0.00
Stocks	4.42	5.22	6.08	4.62	4.68	5.90	3.63
Utility	0.87	1.06	1.60	0.95	1.03	1.46	0.18
Industrial	3.55	4.16	4.48	3.67	3.65	4.44	3.45
Financial corporations							
Bonds	20.13	27.65	28.46	33.78	29.25	33.73	19.03
Sold in U.S.	18.67	25.09	26.02	29.19	22.20	31.50	17.00
Sold abroad	1.46	2.56	2.44	4.59	7.05	2.23	2.03
By quality[2]							
Aaa and Aa	1.55	1.87	1.57	3.27	1.31	3.46	4.22
A and Baa	6.77	8.99	8.78	11.29	8.93	9.37	2.61
Less than Baa	0.31	0.48	0.66	0.64	0.94	0.58	0.12
Unrated or rating unknown	0.04	0.08	0.13	0.02	0.06	0.00	0.17
Stocks	2.51	4.16	4.73	3.85	4.06	4.67	1.88

1. Securities issued in the private placement market are not included. Totals reflect gross proceeds rather than par value of original discount bonds. Equity issues associated with equity-for-equity swaps that have occurred in restructurings are excluded.
2. Bonds categorized according to Moody's bond ratings, or to Standard and Poor's if unrated by Moody's. Excludes mortgage-backed and asset-backed bonds.
p Preliminary.

underwriting boom. Evidence of reduced trading profits helped push prices of money center banks down in recent weeks. In early April, prices of regional bank stocks rallied strongly on speculation about potential mergers under prospective interstate branching legislation, but then they fell back a bit.

Gross equity issuance by nonfinancial corporations fell to an estimated $3.6 billion in April from nearly $6 billion in March. Issuance last month was buoyed by RJR Nabisco's $1.6 billion offering of hybrid preferred stock (PERCS) having a dividend yield of 9-1/4 percent, an offering that had been reworked to address investor distaste for the tobacco industry. Initial public offerings were off substantially in April in response to lower stock prices and increased market uncertainty. Because of a resurgence in mergers and acquisitions, the first quarter of 1994 likely was the first since 1991 in which net equity issuance was negative.

In the first quarter, Moody's Investors Service upgraded twenty-seven domestic nonfinancial firms and downgraded thirty-nine, reflecting continued weakness among investment-grade industrial credits. Several bank holding companies were upgraded, and none were downgraded, leaving Bank of Boston Corporation as the only one of the top twenty without at least an A rating.

State and Local Finance

Municipal bond yields, on balance, are up about 50 basis points since the March FOMC meeting. This increase is less than the rise in yields on comparable Treasuries, resulting in a slight drop in the ratio of tax-exempt to taxable yields.

An abatement of bond sales by tax-exempt mutual funds has helped to reduce pressures on bond rates in recent weeks. These funds continued to face sizable share redemptions in April, but most had raised enough cash through earlier sales to accommodate the outflows without further liquidations. The improved condition of the market also reflected increased direct purchases by individuals.

GROSS OFFERINGS OF MUNICIPAL SECURITIES
(Billions of dollars, monthly rates, not seasonally adjusted)

	1992	1993	1993 Q4	1994 Q1	1994 Feb.	1994 Mar.	1994 Apr.[p]
Total offerings[1]	21.8	27.8	24.4	18.5	20.1	17.3	11.0
Total tax-exempt	21.2	27.1	23.6	17.7	18.8	16.5	10.7
Long-term	17.9	23.3	21.5	15.5	14.7	15.4	10.1
Refundings[2]	7.9	15.7	13.7	7.4	5.9	5.3	2.0
New capital	10.0	7.6	7.8	8.1	8.8	10.1	8.1
Short-term	3.3	3.8	2.1	2.2	4.1	1.1	.6
Total taxable	.6	.7	.8	.8	1.3	.8	.3

1. Includes issues for public and private purposes.
2. Includes all refunding bonds, not just advance refundings.
p = Preliminary.

Last year, individuals generally preferred to invest through mutual funds and ran off their direct holdings of municipal securities. Mutual funds provided a convenient means of reinvesting interest and any principal payments, and they were the preferred approach for first-time investors. With the decline in net asset values of tax-exempt mutual funds this year, many individuals, who tend to be buy-and-hold investors, saw direct purchases as the more attractive alternative.

The net rise in bond rates significantly slowed the gross issuance of tax-exempt securities. In April, the volume of new long-term offerings fell to an estimated $10 billion, the lowest monthly total since October 1990. Through the first four months of this year, gross issuance was down nearly 35 percent from that in the same period in 1993. Refunding volume was a paltry $2 billion last month. Offerings to raise new capital declined to $8 billion in April, from $10 billion in March, as several prospective borrowers chose to postpone issues in light of the backup in interest rates. Even with the postponements, the thirty-day calendar remains relatively small.

According to Standard and Poor's, the favorable trend in credit quality that began last year extended into 1994. In the first quarter, upgrades outpaced downgrades by more than two to one. No state ratings were changed, but ratings were raised on general obligation issues of numerous county and local governmental units in response to improvements in their economies. Several housing-related issuers were upgraded, reflecting the better performance of their mortgage portfolios. Hospital-related issuers, in contrast, posted more downgrades than upgrades. In early May, the opening of Denver's new international airport was postponed a fourth time. The delayed opening is costing about $1 million a day in lost revenue, suggesting that additional borrowing will be required to service outstanding debt. As a result, Moody's lowered its rating on the $3 billion of construction bonds that have been issued to one notch above junk, and Standard and Poor's is reviewing its rating.

Federal Finance

The seasonal inflow of federal tax receipts is projected to result in a budget deficit of only $9 billion in the second quarter. The staff anticipates that marketable borrowing will total $2-1/2 billion, as the Treasury runs off $27 billion in bills while raising $29 billion with coupon issues. Weekly bill offerings were cut from $25.2 billion to $22.8 billion in April but have since been increased to $24 billion. Sizes of coupon auctions are expected to be little changed. The mid-quarter refunding, conducted earlier this week, consisted of $17 billion of three-year notes and

TREASURY FINANCING[1]
(Total for period; billions of dollars)

	1994				
	Q1	Q2[p]	Apr.[e]	May[p]	Jun.[p]
Treasury financing					
Total surplus/deficit (-)	-58.6	-8.8	13.0	-40.5	18.7
Means of financing deficit:					
Net cash borrowing from the public	51.2	5.3	-27.0	23.8	-3.5
Marketable borrowings/ repayments (-)	54.0	2.5	-23.1	24.1	1.5
Bills	6.8	-26.6	-15.8	-6.9	-3.9
Coupons	47.2	29.1	-6.9	22.0	3.1
Nonmarketable	-2.8	2.8	1.1	-.3	2.0
Decrease in the cash balance	5.1	2.4	-4.1	31.0	-24.5
Memo: Cash balance at end of period	44.6	42.3	48.7	17.7	42.3
Other[2]	2.2	1.1	13.2	-14.3	2.3

1. Data reported on a payment basis, not seasonally adjusted.
2. Includes checks issued less checks paid, accrued items, and other transactions.
p--Projected.
e--estimated
NOTE: Details may not add to totals because of rounding.

FEDERALLY SPONSORED CREDIT AGENCIES
Net Cash Borrowing[1]
(Billions of dollars)

	1993		1994	1994		
	Q3	Q4	Q1	Jan.	Feb.	Mar.
FHLBs	5.4	8.9	3.8	-2.3	-1.4	7.5
FHLMC	17.1	-2.7	12.9	11.3	9.2	-7.6
FNMA	19.3	5.3	15.3	1.9	3.5	9.9
Farm Credit Banks	-0.1	1.5	-0.7	-0.5	0.2	-0.4
SLMA	-0.1	1.0	--	--	--	--
FAMC[2]	0.0	0.0	0.0	0.0	0.0	0.0

1. Excludes mortgage pass-through securities issued by FNMA and FHLMC.
2. Federal Agricultural Mortgage Corporation.

$12 billion of ten-year notes, raising a little less than $1 billion in new cash.

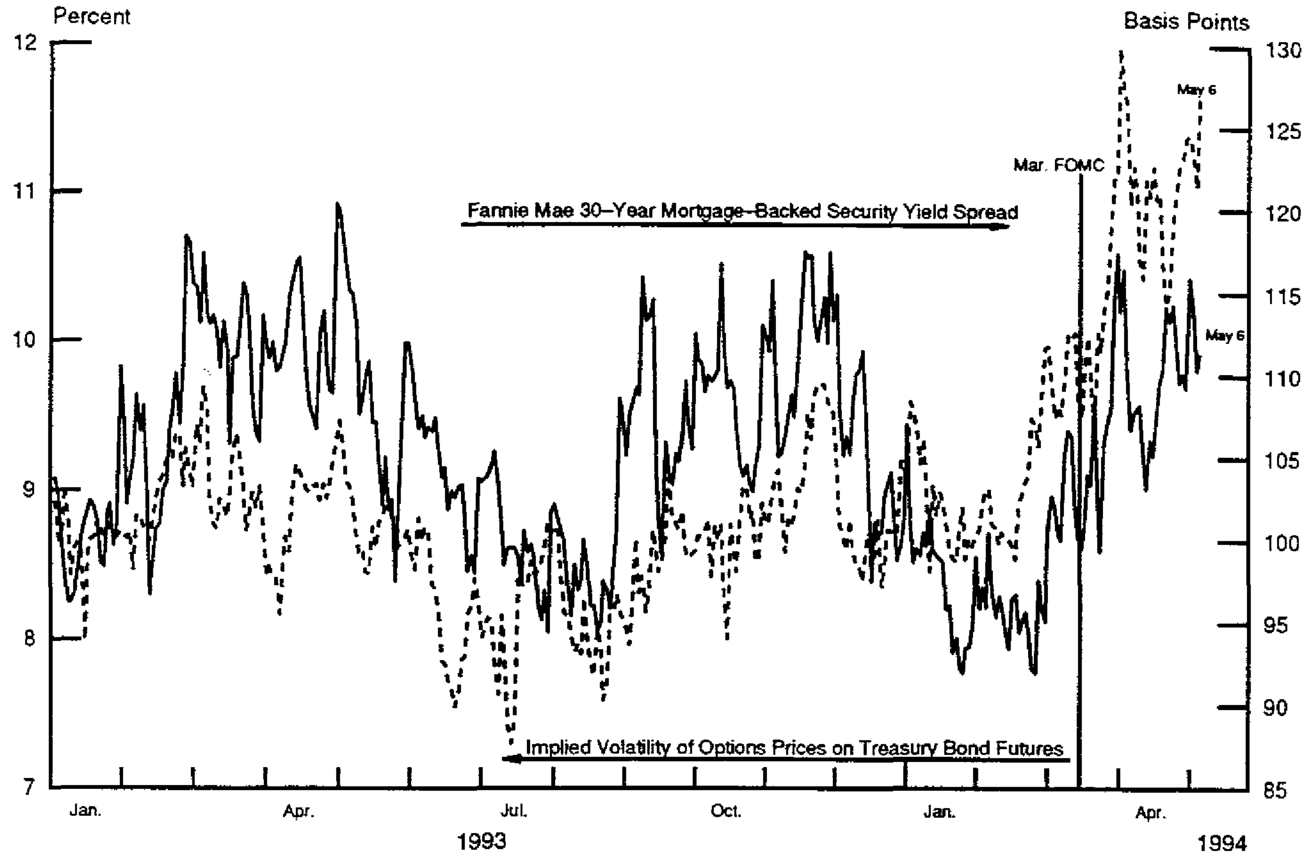
The Treasury also announced that it will continue to study its experiment with uniform-price auctions of two-year and five-year notes. In the first twenty rounds of the experiment, the markups of the average issuing rates over the when-issued rates at the time of the auction have been little different from an earlier sample of discriminating-price auctions, indicating unchanged underwriting premiums. However, a full examination of the success of this experiment in lowering Treasury borrowing costs would have to control for other factors, including changes in the relationship between when-issued rates and other comparable rates.

During the first quarter, government-sponsored agencies continued to issue debt at a brisk pace. The rise in interest rates raised concerns that short- and intermediate-term rates were headed higher and inclined some agencies toward fixed-rate issues instead of floating-rate debt. Spreads over Treasuries on all issues have widened 5 to 20 basis points, although they remain low by historical standards.

Mortgage Markets

Interest rates on home mortgages have moved sharply higher over the intermeeting period. The average contract rate on conventional fixed-rate loans was up about 3/4 percentage point, to 8-1/2 percent, in the first few days of May. As rates on fixed-rate loans moved higher, lenders reported an increase in the share of originations accounted for by adjustable-rate mortgages (ARMs). First-year rates on ARMs rose about 2/3 percentage point, to 5-1/4 percent, although the rate on benchmark one-year Treasury securities increased a full percentage point. The narrowing of the ARM-to-Treasury spread suggested that some portfolio lenders were holding first-year ARM

Yield Spread on Fannie Mae 30-Year Mortgage-Backed Securities and Implied Volatility of Options Prices on Treasury Bond Futures
(Daily)



MORTGAGE-BACKED SECURITY ISSUANCE
(Billions of dollars, monthly averages, NSA unless noted)

	Pass-through securities				Multiclass securities				
	Total (SA)	Federal agency		Private					
		Fixed-rate (SA)	ARM-backed(SA)	Non-agency[1]	Total	Non-agency[2]	FNMA REMICs	FHLM REMICs	Agency strips
1990	20.1	17.3	2.2	.6	10.6	1.4	5.1	3.4	.7
1991	23.7	20.2	1.9	1.6	18.1	2.6	8.5	6.0	1.1
1992	40.1	34.7	3.2	2.2	30.4	5.3	12.9	11.0	1.3
1993	48.8	42.5	4.6	1.7	37.1	6.2	14.0	12.0	4.8
1993 Q2	42.4	37.3	4.0	1.1	32.9	5.1	12.3	10.6	4.9
Q3	54.1	46.4	5.3	2.5	43.7	7.1	17.2	12.6	6.7
Q4	59.8	53.0	5.1	1.8	44.5	7.0	15.9	17.7	3.8
1994 Q1	55.5	47.7	6.2	1.7	38.4	8.4	11.0	13.9	5.1
1994 Jan	63.0	55.2	7.2	.6	28.8	8.3	6.5	10.0	4.0
Feb	59.2	49.9	7.0	2.3	39.0	9.9	9.7	11.5	7.9
Mar	44.8	38.3	4.5	2.1	47.3	7.2	16.5	20.0	3.6

1. Collateralized by adjustable-rate mortgages.
2. Collateralized by fixed-rate mortgages.

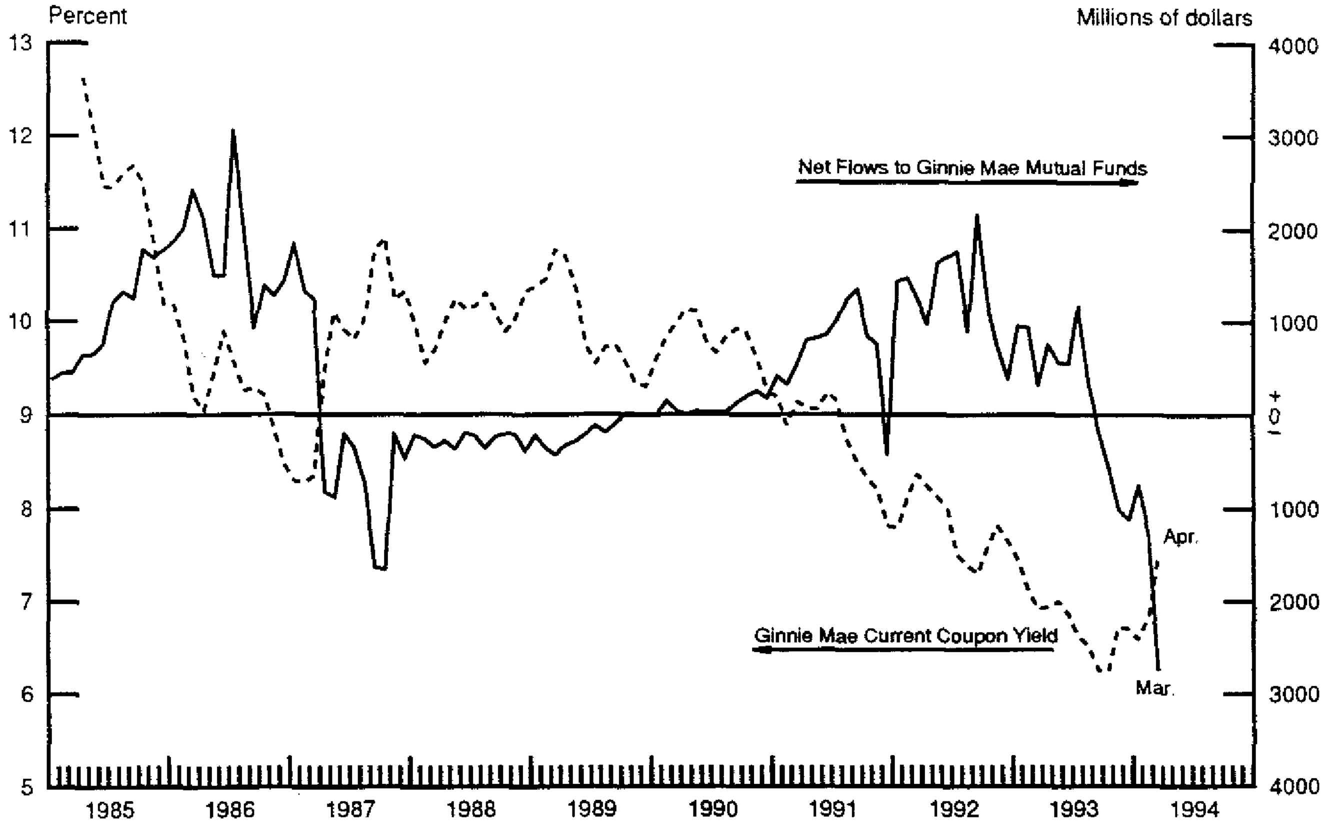
rates low to capture a larger share of the overall home mortgage market.

On balance, the rise in fixed mortgage rates since last October's low has paralleled changes in Treasury yields, but the yield spread has varied, first narrowing and then widening by about 20 basis points (chart). Increased rate volatility was one reason for the recent widening, but reduced demand by institutional investors also played a role. One source of this reduced demand was a decline in first-quarter issuance of real estate mortgage investment conduits (REMICs) by Fannie Mae and Freddie Mac following the record volume of the fourth quarter (table). So far in the second quarter, REMIC issuance is reported to have slowed further. Issuance of new REMICs depends on the ability of Wall Street dealers to sell the higher-risk classes of bonds designed to absorb much of the prepayment risk of the underlying collateral.[2] The recent forced liquidation of such high-risk REMIC bonds held by certain hedge funds, market fears about additional liquidations from other funds or dealer inventories, and the uncertainty about how to price such bonds in a volatile market all reduced investor demand for these high-risk securities and slowed the overall issuance of REMICs.

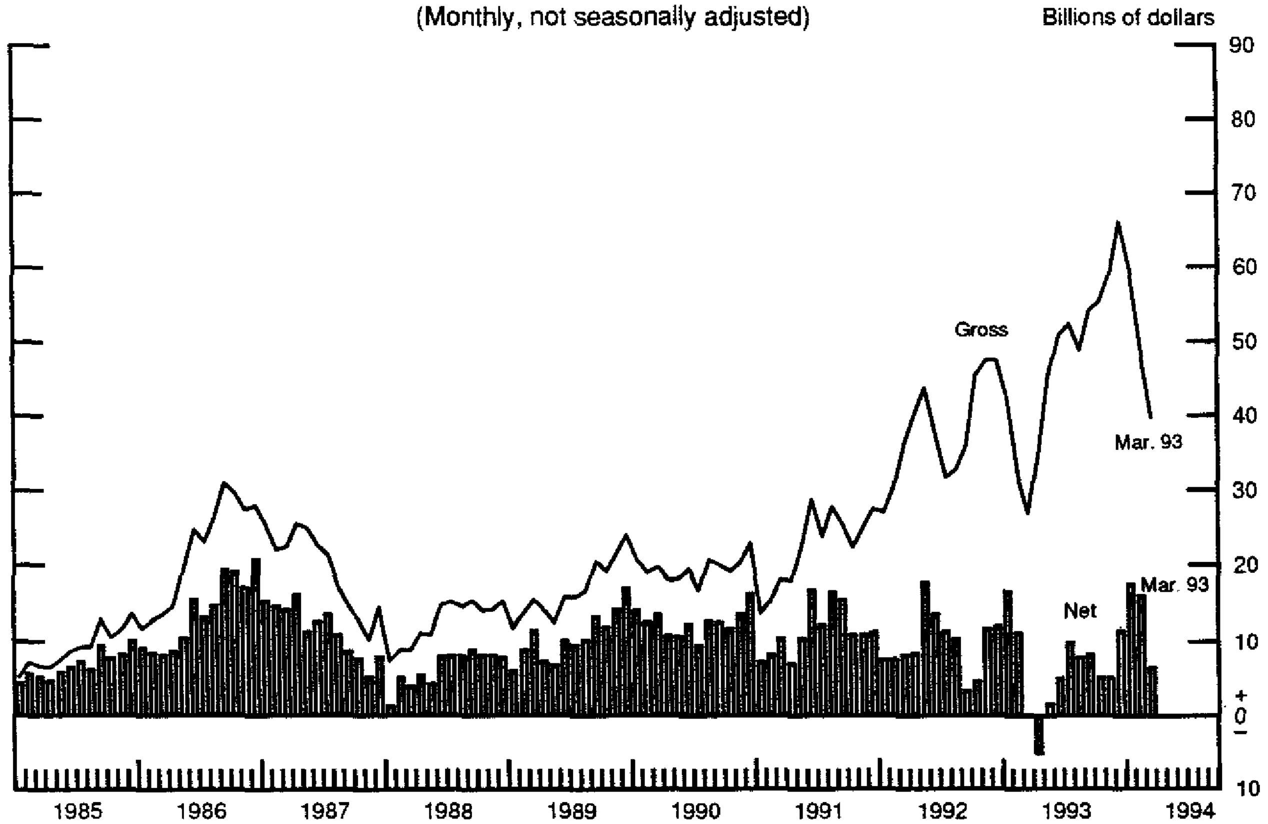
A second source of reduced investor demand was mutual fund sales of mortgage-backed securities to meet shareholder redemptions. Net sales of Ginnie Mae funds turned negative last fall (chart), but outflows have accelerated in recent months. A third source of reduced demand was the steadily declining purchases of new mortgages by Fannie Mae and Freddie Mac for their own portfolios. The agencies had been large buyers through the end of last year,

2. REMIC issuance tends to bid up the prices for newly originated mortgage collateral in the secondary market and to lower the mortgage rates offered to households.

Net Flows to Ginnie Mae Mutual Funds and
Ginnie Mae 30–Year Mortgage–Backed Security Current Coupon Yield
(Monthly, not seasonally adjusted)



Gross and Net Issuance of Agency Mortgage Pass–Through Securities
(Monthly, not seasonally adjusted)



financing these investments primarily with callable debentures. Since the beginning of 1994, however, the two agencies have reduced their combined net portfolio purchases in response to declines in the spread they can earn over their cost of funds.

The effect on mortgage spreads of weaker demand from institutional investors was partly offset by a decline in the supply of agency pass-through securities (chart). Although net issuance in the first quarter exceeded that in the fourth quarter, net issuance has been declining since the beginning of the year, reflecting both the sharp decline in refinancing volume and the slowdown in housing activity.

Consumer Credit

Interest rates on consumer loans have not risen as much as comparable market interest rates since February. The latest observations of the Board's series on consumer loan rates at banks are for February (the May survey is in process), but weekly data from the Bank Rate Monitor (BRM) showed little movement over the past three months. Average rates on forty-eight-month new-car loans, which typically track broad rate movements fairly closely, were only 1/3 percentage point higher in early May than they were in early February. Yields on Treasury securities of like maturity rose more than 150 basis points over this period. As improvements in loan quality have bolstered earnings and reduced the perceived risk of auto loans, banks have waged vigorous price competition in this market over the past several quarters. Although many banks in the BRM survey nudged auto rates up 1/4 to 1/2 percentage point during April, reports of low-rate promotions continued to crop up in the financial press.

INTEREST RATES ON 48-MONTH NEW-CAR LOANS AT BANKS
(Percent)

Series	1993 Nov. 8	1994, week of: Feb. 9	Mar. 7	Apr. 6	May 4
Federal Reserve	7.63	7.54	--	--	--
Bank Rate Monitor	7.55	7.65	7.65	7.77	7.97
Memo: 3-year Treasury	4.49	4.75	5.28	5.88	6.21

Growth of consumer installment credit was strong in the first quarter of 1994, though off a bit from the previous quarter's pace. A sharp rebound in March saw installment credit increase at an 11 percent annual rate, resulting in a 9 percent rate of increase for the quarter as a whole. Revolving credit slowed in March but still advanced at a 10-1/4 percent rate in the first quarter, continuing a pattern evident since last summer. Automobile credit advanced strongly in March, reflecting vigorous sales of new cars.

GROWTH OF CONSUMER CREDIT
(Percent change, seasonally adjusted annual rate)

	1992	1993	1993 Q4	1994 Q1	1994 Feb.[r]	1994 Mar.[p]	Memo: Outstandings, March 1994 (Billions of dollars)
Installment	1.0	6.6	11.2	9.0	6.0	11.1	807.9
Auto	-.5	7.2	11.3	6.6	6.0	10.5	282.9
Revolving	4.4	10.7	11.4	10.2	10.6	5.3	288.7
Other	-.8	1.4	10.8	10.4	0.4	19.1	236.3
Noninstallment	3.0	-2.4	-4.9	-16.1	1.1	-43.1	48.8
Total	1.2	6.0	10.2	7.5	5.7	7.9	856.6

r Revised.
p Preliminary.

INTEREST RATES ON CONSUMER LOANS
(Annual percentage rate)

	1991	1992	1993	1993 Aug.	1993 Nov.	1994 Feb.	1994 Mar.
At commercial banks[1]							
New cars (48 mo.)	11.1	9.3	8.1	8.0	7.6	7.5	...
Personal (24 mo.)	15.2	14.0	13.5	13.5	13.2	12.9	...
Credit cards	18.2	17.8	16.8	16.6	16.3	16.1	...
At auto finance cos.[2]							
New cars	12.4	9.9	9.5	9.2	9.0	8.9	9.1
Used cars	15.6	13.8	12.8	12.5	12.4	12.2	12.7

1. Average of "most common" rate charged for specified type and maturity during the first week of the middle month of each quarter.
2. For monthly data, rate for all loans of each type made during the month regardless of maturity.
Note: Annual data are averages of quarterly data for commercial bank rates and of monthly data for auto finance company rates.

INTERNATIONAL DEVELOPMENTS

U.S. International Trade in Goods and Services.

In February, the U.S. deficit in international trade in goods and services increased to $9.7 billion, seasonally adjusted. The merchandise trade deficit widened in February, as exports declined and imports increased. Net service receipts also declined from the level recorded in January. For January-February combined, the

U.S. INTERNATIONAL TRADE IN GOODS & SERVICES
(Billions of dollars, seasonally adjusted)

	Year	Quarters			Months		
	1993	93Q3	93Q4	94Q1e	Dec	Jan	Feb
		(annual rates)			(monthly rates)		
NIPA Real 1/ Net Exports of G&S	-76.5	-86.3	-84.5	-104.2	--	--	--
BOP Nominal Net Exports of G&S	-76.8	-88.5	-80.3	-98.1	-4.1	-6.6	-9.7
Goods, net	-132.4	-143.9	-131.0	-151.4	-8.7	-11.4	-13.9
Services, net	55.7	55.4	50.7	53.3	4.6	4.7	4.2

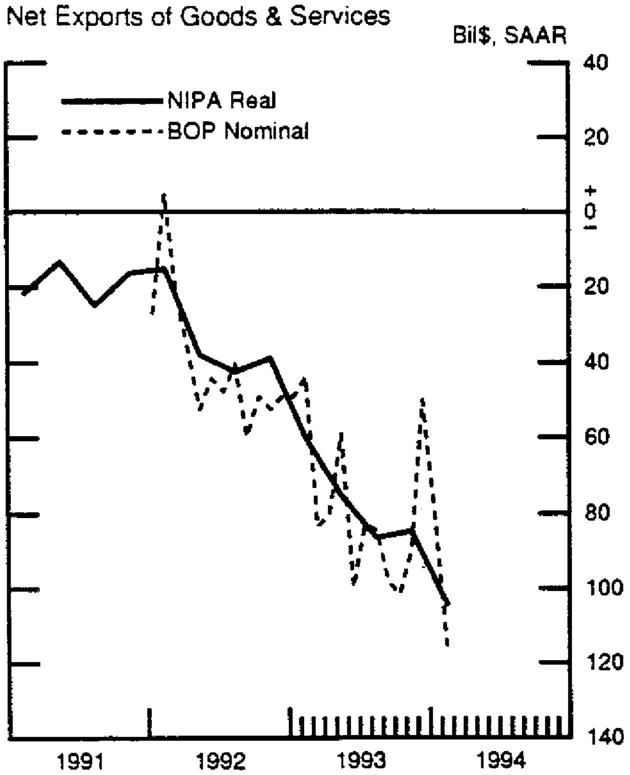
1/ In billions of 1987 dollars, SAAR.
e/ BOP data are two months at an annual rate.
Source: U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis.

deficit widened to over $98 billion (SAAR), substantially larger than in any recent quarter. A large decline in exports swamped a smaller drop in imports.

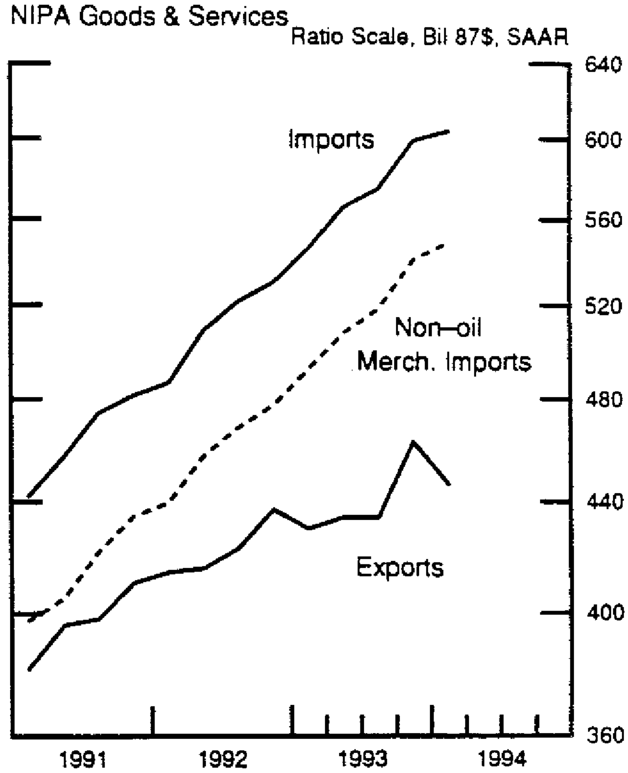
Exports of goods and services in January-February dropped nearly 4 percent from the unusually strong level recorded in the fourth quarter of 1993, but still averaged slightly above the levels recorded in the first three quarters of last year. Exports fell in virtually all major trade categories, with the largest declines recorded in exports of machinery and industrial supplies. One exception was exports of semiconductors, which have risen steadily since 1992. Exports of services rose 1 percent.

U.S. International Trade in Goods & Services

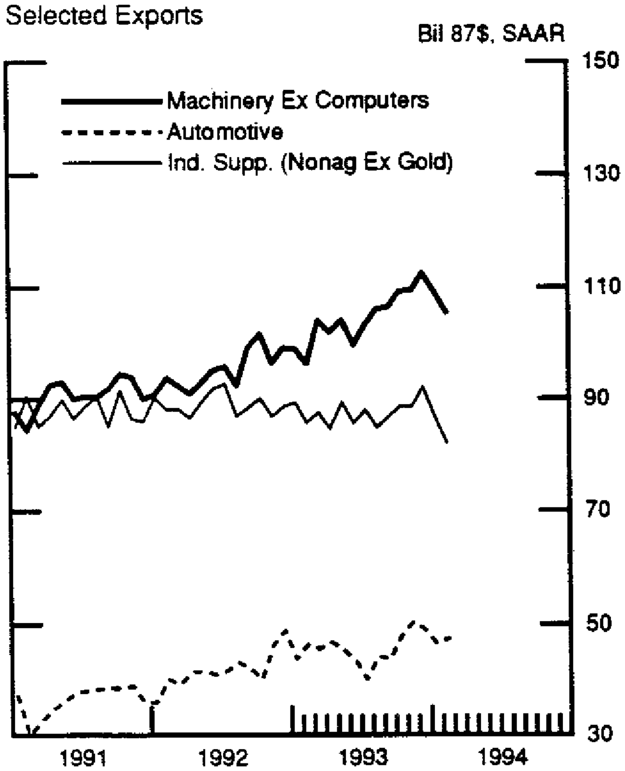
Net Exports of Goods & Services



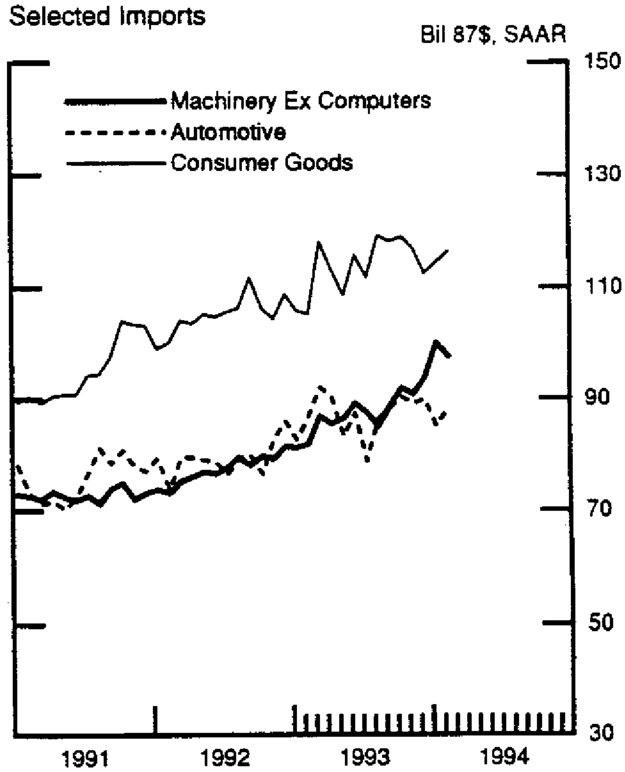
NIPA Goods & Services



Selected Exports



Selected Imports



U.S. EXPORTS AND IMPORTS OF GOODS AND SERVICES
(Billions of dollars, SAAR, BOP basis)

	Quarters				Months		
	Levels		$Change 1/		Levels		$Chg 1/
	93Q4	94Q1e/	Q4	Q1e/	Jan	Feb	Feb
Exports of G&S	667.8	643.2	32.6	-24.6	651.5	634.8	-16.
Goods Exports	481.2	454.2	33.4	-27.0	462.3	446.0	-16.4
Agricultural	45.3	42.6	3.0	-2.8	44.3	40.8	-3.4
Gold	13.1	5.3	3.9	-7.8	5.5	5.0	-0.5
Computers	30.8	31.0	1.2	0.2	31.2	30.8	-0.5
Other Goods	391.9	375.3	25.3	-16.6	381.3	369.3	-11.9
Aircraft & Parts	34.5	33.4	7.5	-1.1	36.4	30.5	-5.9
Semiconductors	20.6	23.6	0.8	2.9	24.5	22.6	-1.8
Other Capital Goods	107.4	100.0	5.4	-7.4	101.1	99.0	-2.1
Automotive Products	55.6	53.5	7.2	-2.1	53.1	54.0	0.9
to Canada	29.5	27.9	3.6	-1.6	28.5	27.3	-1.2
to Mexico	8.4	7.5	2.2	-0.9	7.3	7.6	0.3
to Rest of World	17.7	18.1	1.5	0.4	17.2	19.0	1.8
Industrial Supplies	97.4	92.5	2.3	-4.9	94.5	90.6	-3.9
Consumer Goods	56.1	53.6	1.9	-2.4	54.2	53.1	-1.1
All Other	20.3	18.6	0.3	-1.7	17.6	19.6	2.0
Services Exports	186.6	189.0	-0.8	2.4	189.2	188.8	-0.4
Imports of G&S	748.0	741.3	24.4	-6.7	731.3	751.3	20.0
Goods Imports	612.1	605.6	20.5	-6.6	598.5	612.6	14.1
Petroleum	48.0	40.9	-2.1	-7.1	38.4	43.4	5.0
Gold	10.0	6.9	-1.6	-3.1	5.0	8.8	3.8
Computers	40.5	41.4	1.5	0.9	41.6	41.3	-0.3
Other Goods	513.6	516.4	22.7	2.7	513.6	519.2	5.6
Aircraft & Parts	12.5	9.8	2.0	-2.6	9.4	10.3	0.9
Semiconductors	22.0	23.8	2.4	1.9	24.3	23.4	-1.0
Other Capital Goods	88.7	93.8	4.6	5.1	94.9	92.7	-2.2
Automotive Goods	106.9	103.7	6.7	-3.1	101.6	105.9	4.3
from Canada	38.2	34.8	1.1	-3.3	35.6	34.0	-1.6
from Mexico	13.0	12.7	2.3	-0.4	12.0	13.3	1.3
from Rest of World	55.7	56.3	3.3	0.6	54.0	58.6	4.6
Industrial Supplies	96.0	99.0	4.2	3.1	98.1	100.0	1.9
Consumer Goods	137.3	136.2	0.1	-1.1	135.2	137.2	2.0
Foods, Feeds, Bev.	29.0	29.0	0.7	-0.0	29.5	28.5	-0.9
All Other	21.4	20.9	2.0	-0.5	20.6	21.3	0.7
Services Imports	135.9	135.7	3.9	-0.2	132.7	138.7	5.9
Memo:							
Oil Quantity (mb/d)	9.24	8.86	0.23	-0.39	8.60	9.12	0.52

1/ Change from previous quarter or month. e/ Average of two months.
Source: U.S. Dept. of Commerce, Bureaus of Economic Analysis and Census

Imports of goods and services fell by 1 percent in January-February. Nearly all of the decline in imports for these two months was in oil imports, as both the price and quantity of imported oil fell substantially in January. Despite a large drawdown of domestic stocks, the quantity of imported oil increased in February, as cold weather in North America kept consumption at relatively high rates. Preliminary Department of Energy statistics suggest that inventories were drawn down again in March. Along with a small decline in consumption, this implies that oil imports fell in March. Offsetting the decline in oil imports in January-February was a continued steady increase in imports of machinery and non-oil industrial supplies (other than building materials). Imports of services were little changed from the previous quarter.

Prices of U.S. Imports and Exports

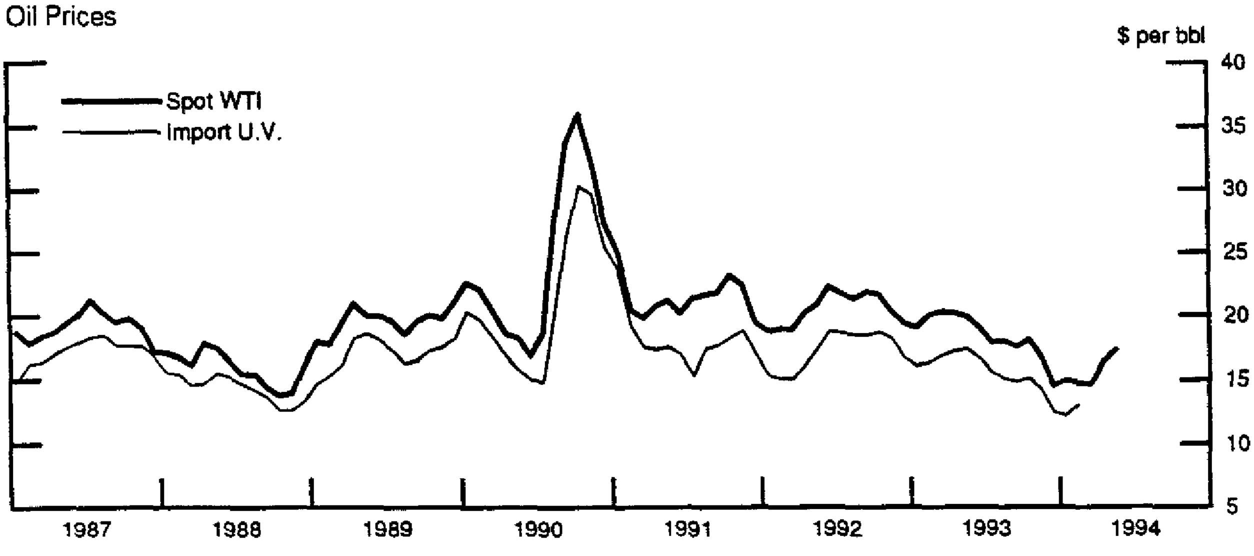
Prices of oil imports decreased 3.3 percent in March, following a sharp increase in February. The jump in February was the first increase in 9 months, as frigid weather pushed up energy demands in North America. For the first quarter as a whole, prices of oil imports declined 31.5 percent at an annual rate; this was the third consecutive quarter in which import prices fell. Most recently, spot and futures oil prices have increased, with the near-term West Texas Intermediate (WTI) contract currently trading near $17.60 per barrel. As a result, import prices should have increased in April to around $13.50 per barrel.

Prices of U.S. non-oil imports rose slightly in March following a small decline in February. For the first quarter as a whole, non-oil import prices rose by 1.2 percent at an annual rate, the fourth consecutive quarter of moderate increases. The largest increases in the first quarter were for prices of non-oil industrial supplies and automotive products.

PRICES OF U.S. IMPORTS AND EXPORTS
(percent change from previous period)

	Quarters			Months		
	93Q3	93Q4	94Q1	Jan	Feb	Mar
	(annual rates)			(monthly rates)		
	BLS Prices					
Merchandise Imports	-3.0	-0.7	-2.3	0.0	0.4	0.0
Oil	-35.2	-24.3	-31.5	-2.1	5.4	-3.3
Non-Oil	1.5	2.0	1.2	0.3	-0.1	0.3
Foods, Feeds, Bev.	8.7	5.9	0.7	0.5	-0.6	0.9
Ind Supp Ex Oil	-2.4	-0.9	5.2	0.6	-0.2	0.9
Computers	-10.6	-6.1	-5.1	-0.6	-0.5	-1.0
Capital Goods Ex Comp	5.3	2.3	-0.2	0.2	-0.2	0.5
Automotive Products	2.2	6.9	2.2	0.3	-0.2	0.2
Consumer Goods	1.0	0.9	-0.1	0.0	0.2	-0.1
Memo:						
Oil Imports ($/bbl)	15.21	14.12	12.62	12.22	13.01	--
Merchandise Exports	0.2	0.5	4.0	0.6	0.1	0.2
Agricultural	14.8	8.2	19.8	2.5	-1.4	0.6
Nonagricultural	-1.5	-0.6	2.3	0.4	0.3	0.2
Ind Supp Ex Ag	-2.9	-4.0	7.8	1.1	1.1	0.2
Computers	-7.0	-6.9	-10.0	-1.4	-0.9	-0.4
Capital Goods Ex Comp	0.9	2.3	0.9	0.2	0.0	0.1
Automotive Products	-0.7	1.3	1.8	0.4	0.0	0.3
Consumer Goods	-0.5	0.7	0.8	0.3	0.1	-0.2
	Prices in the NIPA Accounts					
Fixed-Weight						
Imports of Gds & Serv.	-3.2	0.4	-1.8	--	--	--
Nonpet Merch. Ex Comp	0.5	3.5	1.2	--	--	--
Exports of Gds & Serv.	0.0	0.7	4.0	--	--	--
Nonag Merch. Ex Comp.	-1.8	0.5	2.5	--	--	--

Oil Prices



Prices of U.S. agricultural exports in March resumed their recent upward trend, bringing the total increase for the first quarter to nearly 20 percent at an annual rate. Large increases were recorded in the prices of a variety of agricultural products, particularly wheat, soybeans, and feedstuffs, the planting seasons for which were affected by severe weather in the midwest this winter and spring.

Non-agricultural export prices rose in both February and March. For the entire first quarter, prices of non-agricultural exports rose at an annual rate of 2.3 percent, the first increase since the second quarter of 1993. Increased prices were recorded in all major trade categories except capital goods.

U.S. International Financial Transactions

Banks reported sizable net capital inflows in February and March, leading to a net inflow for the first quarter of $28 billion (line 3 of the Summary of International Transactions Table). The total for the quarter was divided about equally between domestic- and foreign-chartered banks; both substituted foreign-source funds for domestic deposits. Monthly average data reported on the International Banking Data Table indicate a continuation in April of inflows to banks from their own foreign offices and IBFs (line 1).

Private foreign net purchases of U.S. securities were strong in February and March, finishing at over $30 billion for the quarter (line 4 of the Summary table). Purchases of Treasury securities rebounded in February and March (line 4a); over $6 billion of the net in the first quarter was purchased by financial institutions located in the Netherlands Antilles. Purchases of corporate and agency bonds were moderate throughout the quarter (line 4b); about $6.8 billion of the $13.7 billion total represented net purchases of

SUMMARY OF U.S. INTERNATIONAL TRANSACTIONS[1]
(Billions of dollars, not seasonally adjusted except as noted)

	Year		Quarter				Month		
			1993			1994	1994		
	1992	1993	Q2	Q3	Q4	Q1	Jan.	Feb.	Mar.
Official capital									
1. Changes in foreign official reserve assets in U.S. (+ = increase)	**38.3**	**70.0**	**17.3**	**18.5**	**23.1**	**10.3**	**9.8**	**-.8**	**1.3**
a. G-10 countries	4.8	29.9	17.8	9.1	4.8	10.7	6.0	1.3	3.3
b. OPEC countries	4.9	-5.1	-1.7	-3.1	-.9	-2.6	-3.1	*	.5
c. All other countries	28.6	45.2	1.2	12.1	19.2	2.2	6.9	-2.1	-2.6
2. Changes in U.S. official reserve assets (+ = decrease)	**3.9**	**-.7**	**1.5**	**-.5**	**-.7**	**-.1**	**-.2**	**.1**	*****
Private capital									
Banks									
3. Change in net foreign positions of banking offices in the U.S.[2]	**35.6**	**17.3**	**-.2**	**23.1**	**9.0**	**28.2**	**-7.6**	**21.0**	**14.8**
Securities[3]									
4. Foreign net purchases of U.S. securities (+)	**68.1**	**106.7**	**14.8**	**21.4**	**46.5**	**30.2**	**3.7**	**17.0**	**9.4**
a. Treasury securities[4]	37.4	25.5	-.5	3.6	8.2	9.4	-4.2	9.0	4.7
b. Corporate and other bonds[5]	34.3	61.6	14.8	14.9	26.1	13.7	4.5	4.3	5.0
c. Corporate stocks	-3.7	19.6	.5	2.8	12.2	7.0	3.5	3.8	-.3
5. U.S. net purchases (-) of foreign securities	**-47.9**	**-124.3**	**-25.4**	**-42.0**	**-31.6**	**-28.8**	**-15.3**	**-11.0**	**-2.5**
a. Bonds	-15.6	-61.0	-11.7	-21.6	-10.7	-11.0	-9.5	-4.7	3.3
b. Stocks	-32.3	-63.3	-13.7	-20.4	-20.9	-17.8	-5.9	-6.2	-5.7
Other flows (quarterly data, s.a.)									
6. U.S. direct investment (-) abroad	-34.8	-50.2	-11.9	-8.3	-21.3	n.a.	n.a.	n.a.	n.a.
7. Foreign direct investment in U.S.	2.4	31.5	10.5	2.7	9.6	n.a.	n.a.	n.a.	n.a.
8. Other (+ = inflow)[6]	13.0	0.9	2.2	13.3	-8.0	n.a.	n.a.	n.a.	n.a.
U.S. current account balance (s.a.)	-66.4	-109.2	-27.2	-28.1	-31.5	n.a.	n.a.	n.a.	n.a.
Statistical discrepancy (s.a.)	-12.2	26.7	14.4	-.1	3.3	n.a.	n.a.	n.a.	n.a.

1. The sum of official capital, private capital, the current account balance, and the statistical discrepancy is zero. Details may not sum to totals becuse of rounding.

2. Changes in dollar-denominated positions of all depository institutions and bank holding companies plus certain transactions between broker-dealers and unaffiliated foreigners (particularly borrowing and lending under repurchase agreements). Includes changes in custody liabilities other than U.S. Treasury bills.

3. Includes commissions on securities transactions and therefore does not match exactly the data on U.S. international transactions published by the Department of Commerce.

4. Includes Treasury bills.

5. Includes U.S. government agency bonds.

6. Transactions by nonbanking concerns and other banking and official transactions not shown elsewhere plus amounts resulting from adjustments made by the Department of Commerce and revisions in lines 1 through 5 since publication of the quarterly data in the Survey of Current Business.

n.a. Not available. * Less than $50 million.

INTERNATIONAL BANKING DATA 1/
(Billions of dollars)

	1991	1992	1993				1994	
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	April
1. Net claims of U.S. banking offices (excluding IBFs) on own foreign offices and IBFS	-35.8	-71.6	-77.1	-80.4	-114.6	-122.1	-157.5	-168.5
a. U.S.-chartered banks	12.4	17.0	8.9	16.8	12.5	4.2	-15.1	-20.2
b. Foreign-chartered banks	-48.3	-88.6	-86.0	-97.2	-127.1	-126.3	-142.4	-148.3
2. Credit extended to U.S. nonbank residents								
a. By foreign branches of U.S. banks	23.9	24.8	23.5	23.1	21.4	21.8	21.4	22.1
b. By Caribbean offices of foreign-chartered banks	n.a.	n.a.	106.5	101.1	95.9	90.9	n.a.	n.a.
3. Eurodollar holdings of U.S. nonbank residents								
a. At U.S.-based banks in the Caribbean and at all banks in Canada and the United Kingdom	102.9	90.0	89.5	86.1	77.0	77.8	75.1	68.1
b. At the Caribbean offices of foreign-chartered banks	n.a.	n.a.	91.6	80.2	82.4	79.2	n.a.	n.a.
MEMO: Data as recorded in the U.S. international transactions accounts								
4. Credit extended to U.S. nonbank residents	49.8	52.6	72.7	70.5	66.2	71.8	81.1	n.a.
5. Eurodeposits of U.S. nonbank residents	136.6	128.9	123.3	120.7	113.3	n.a.	n.a.	n.a.

1. Data on lines 1 through 3 are from Federal Reserve sources and sometimes differ in timing from the banking data incorporated in the U.S. international transactions accounts.

Lines 1a, 1b, and 2a are averages of daily data reported on the FR2950 and FR2951.

Lines 2b and 3b are end-of-period data reported quarterly on the FFIEC 002s.

Line 3a is an average of daily data for the overnight component (FR2050) and an average of Wednesday data for the term component (FR2077) supplemented by the FR2502 and end of quarter data supplied by the Bank of Canada and the Bank of England. Line 3a includes holdings by money market mutual funds.

Line 4 is end-of-period data from the Treasury International Capital (TIC) Reports. Much of the increase since December 1992 is the result of improved reporting ($31 billion in 1993 and $8.6 billion in 1994 Q1).

Line 5 is end-of-period data estimated by BEA on the basis of the FR2502 and information provided by foreign central banks, supplemented by TIC reports of banks' custody claims. It includes foreign-currency denominated deposits, but does not currently include estimates of deposits at foreign-chartered banks in the Caribbean.

U.S. agency bonds. In March, foreigners sold U.S. stocks net, butnet purchases for the quarter remained substantial (line 4c)

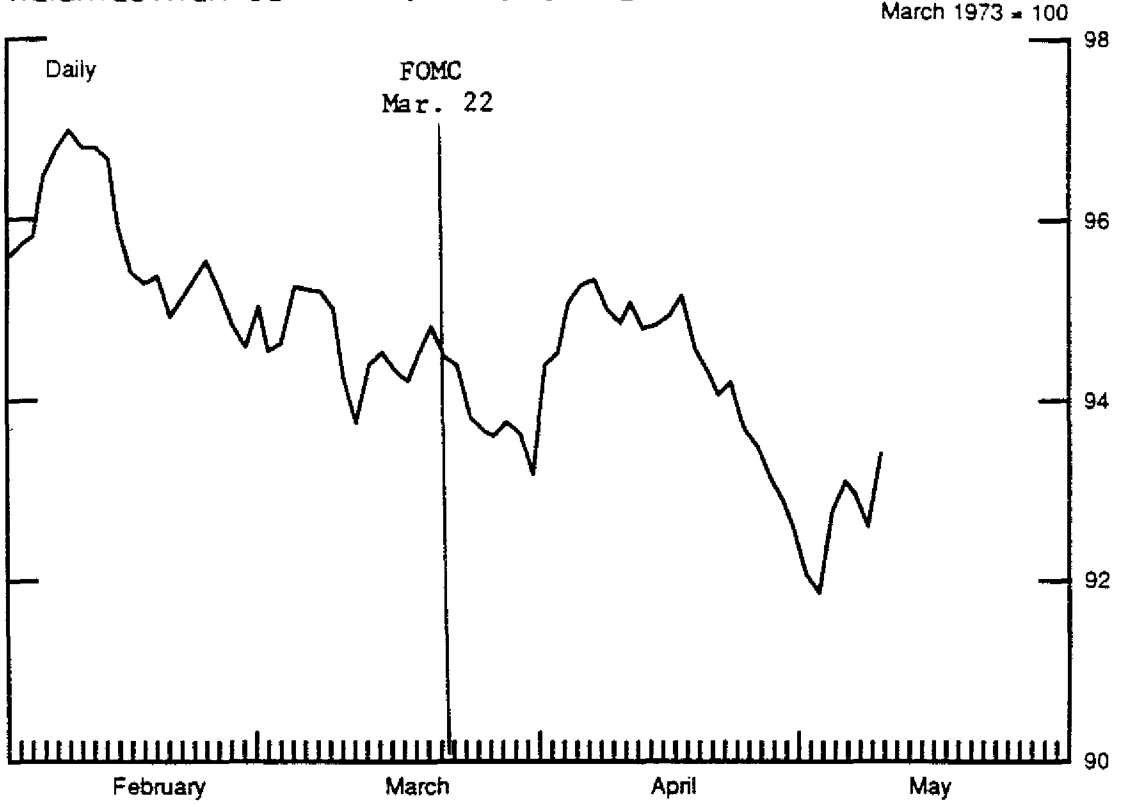
At close to $29 billion, net purchases of foreign securities by U.S. residents continued strong in the first quarter (line 5) Of the $17.8 billion in net stock purchases (line 5b), almost $10 billion was from Japanese residents.

After January, total foreign official reserve assets in the United States changed only marginally, increasing approximately $10 billion for the quarter (line 1). Mexican holdings in the UnitedStates fell sharply in March, after substantial increases earlier in the quarter.

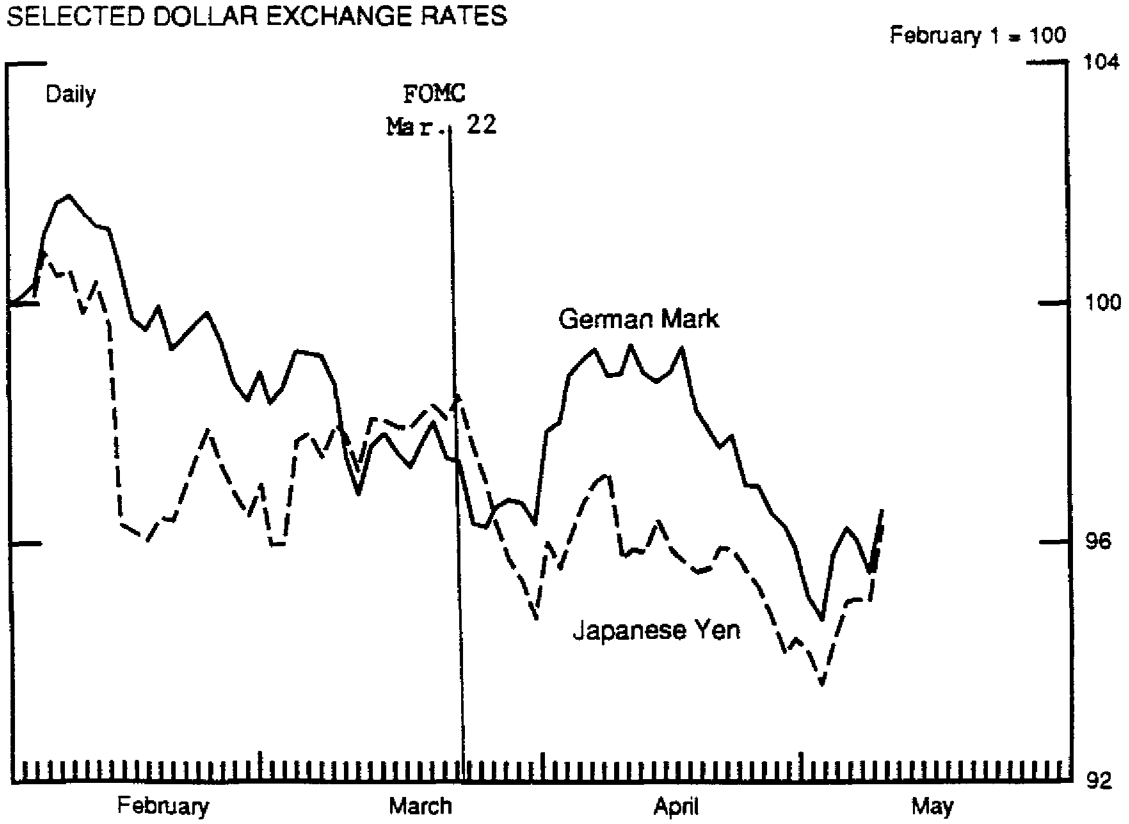
Foreign Exchange Markets

The weighted average foreign exchange value of the dollar declined nearly 1 percent on balance since the March 22 FOMC meeting. The dollar depreciated 1-1/2 percent against the yen. Concern that the political disarray in Japan would so preoccupy the Japanese government as to make it impossible for the authorities to negotiate more open trading relationships or to implement a more stimulative fiscal policy prompted market speculation that U.S. authorities would seek a stronger yen to help redress the bilateral trade imbalance. These perceptions by market participants seemed to persist even after Treasury Secretary Bentsen indicated that the United States was not seeking to devalue the dollar against the yen. Against the mark, the dollar declined about 1/2 percent on balance, despite the shift toward a tighter monetary policy stance in the United States and a modest pickup in the pace of easing in Germany. The two 1/4-point increases in the federal funds rate and a sequence of reductions in the Bundesbank's RP rate totaling more than 50 basis points pushed three-month interbank rates up 80 basis points

WEIGHTED AVERAGE EXCHANGE VALUE OF THE DOLLAR



SELECTED DOLLAR EXCHANGE RATES



in the United States and down 70 basis points in Germany. The three-month CD rate in Japan edged 10 basis points lower over the period. Long-term interest rates also moved in favor of dollar assets--with the U.S.-German differential up about 60 basis points and the U.S.-Japanese differential up 120 basis points.

The seemingly unwarranted decline in the dollar during the intermeeting period prompted U.S. intervention operations on April 29 and May 4. Operations on both days were accompanied by statements from Secretary Bentsen acknowledging the intervention and explaining the rationale. On April 29, the Desk purchased $500 million against marks and $200 million against yen. The Bank of Japan also purchased dollars against yen on that day. Secretary Bentsen explained that the operations were to counter disorderly market conditions, citing the previously articulated Administration policy that recognizes that excessive volatility is counterproductive to growth and announcing that the U.S. monetary authorities stand ready to cooperate in foreign exchange markets. On May 4, the Desk purchased $750 million against marks and $500 million against yen. In his statement, the Secretary stated that recent movements in exchange markets had gone beyond what is justified by economic fundamentals and announced that the U.S. operations were conducted in concert with operations by other major countries.

In addition to the intervention on those two days, the Desk purchased $213 million against a variety of currencies during the Greenbook period, liquidating holdings of all foreign currencies other than marks and yen in the System and Treasury accounts.

. In addition, news of the creation of the North American Financial Group and the enlargement of the U.S.-Mexican and Canadian-Mexican foreign exchange swap facilities also appear to have contributed to the peso's rebound.

North of the border, the Canadian dollar declined another 3/4 percent against the U.S. dollar. Canadian authorities moved to offset the stimulative effects of the depreciation by pushing up short-term interest rates in Canada even more than comparable U.S. rates rose. The differential between three-month interest rates in Canada and the United States increased about 100 basis points during the intermeeting period. The long-term interest rate differential was little changed.

On April 14 and again on May 11, the Bundesbank announced reductions in its discount and Lombard rates. The cumulative decline in both rates was 3/4 percentage point, bringing the discount rate to 4-1/2 percent and the Lombard rate to 6 percent Similar announcements of reductions in official interest rates in many other major European countries followed the Bundesbank's moves. In addition, short-term market interest rates in Europe generally declined in the wake of the easing of monetary conditions in Germany. In particular, three-month interest rates in France and Belgium declined 50 basis points or more during the period. Long-term interest rates in Europe were generally higher--with the 10-year bond yield in the United Kingdom up more than 90 basis points during the period and the comparable bond yield in France up nearly 60 basis points. Political concerns in the United Kingdom, especially after the local election results in May in which the Conservative Party made a particularly poor showing, are in part responsible for the rise in the yield there.

Developments in Foreign Industrial Countries

Monthly indicators point to some recovery in economic activity in the first quarter in all the major foreign industrial countries. In Japan, signs of recovery have been tentative, with the rebound in industrial production from its low fourth-quarter level partially overshadowed by declines in other indicators. In continental Europe, signs of recovery have been more apparent in forward-looking indicators such as orders and business and consumer confidence. Indicators of first quarter output, especially in Germany, have been weaker. In Canada and the United Kingdom, where recovery is more firmly established, indicators continue to be positive.

Inflationary pressures remain subdued in the major foreign industrial countries as wage and price inflation has continued to slow in response to persistent economic slack. In Japan, price measures also have been depressed by yen appreciation.

New prime ministers were selected in Japan and Italy. The new Japanese prime minister, Tsutomu Hata, replaced Morihiro Hosokawa who resigned in the wake of charges that he accepted improper loans. In Italy, the new prime-minister is Silvio Berlusconi head of one of the three parties that make up the Freedom Alliance. The Freedom Alliance won a major victory in elections on March 27 displacing the Christian Democratic party which had ruled Italy since World War II

Individual Country Notes. In Japan, data for the first quarter point to some recovery in economic activity following a decline in real GDP in the fourth-quarter. GDP data released since last Greenbook show that real GDP (s.a.a.r.) decreased 2.2 percent in the fourth quarter of 1993 as the result of a large negative contribution from net exports. Domestic demand remained nearly unchanged, as increases in household and government expenditures offset a sharp decline in private non-residential investment.

In the first quarter, industrial production (s.a.) rose 1.7 percent from its low point in the fourth quarter, while capacity utilization recovered from an historical low in the fourth quarter. Other indicators were mixed, with new car registrations and housing starts up and new machine orders down. The unemployment rate (s.a.) in the first quarter edged up to 2.8 percent.

Consumer prices (n.s.a.) in the Tokyo area in April were up 0.8 percent from a year ago. The decline in the wholesale price index (n.s.a.) in March to 2.9 percent below its year-earlier level largely reflects recent appreciation of the yen.

In the first quarter, the trade surplus (s.a.a.r.) registered \$125 billion compared with \$120 billion in 1993 as a whole, and the bilateral surplus with the United States (a.r.) registered \$50 billion compared with \$51 billion in 1993.

REAL GDP AND INDUSTRIAL PRODUCTION IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period, seasonally adjusted 1/)

	1992	1993	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1993 NOV	1993 DEC	1994 JAN	1994 FEB	1994 MAR	Latest three months from year ago 2/
JAPAN												
GDP	-0.3	0.0	-0.5	0.3	-0.6	NA	*	*	*	*	*	0.0
IP	-7.7	-4.8	-1.5	0.1	-3.7	1.7	2.2	-1.9	1.0	-0.1	4.0	-3.5
GERMANY												
GDP	0.7	-0.3	0.7	1.0	-0.5	NA	*	*	*	*	*	-0.3
W. GERMANY												
GDP	0.0	-0.8	0.7	1.0	-0.7	NA	*	*	*	*	*	-0.8
IP	-4.6	-2.7	-0.0	0.7	-0.4	-0.5	-1.3	1.3	-1.5	1.3	-0.8	-0.3
FRANCE												
GDP	0.6	-0.3	0.2	0.3	0.1	NA	*	*	*	*	*	-0.3
IP	-2.5	-1.3	-0.6	0.9	-0.6	NA	0.9	-1.0	-0.2	0.6	NA	-0.0
UNITED KINGDOM												
GDP	0.2	2.4	0.4	0.8	0.7	0.7	*	*	*	*	*	2.6
IP	0.9	3.1	0.8	1.1	1.2	0.7	0.2	-0.6	0.8	0.6	-0.6	3.8
ITALY												
GDP	-0.4	0.3	0.4	-0.4	0.8	NA	*	*	*	*	*	0.3
IP	-3.1	-0.6	-1.1	0.8	-0.2	NA	-0.7	1.0	NA	NA	NA	-0.6
CANADA												
GDP	0.8	3.0	0.9	0.5	0.9	NA	*	*	*	*	*	3.0
IP	1.9	4.7	0.8	0.8	1.1	NA	0.6	-0.5	0.5	-0.6	NA	3.8
UNITED STATES												
GDP	3.9	3.1	0.5	0.7	1.7	0.6	*	*	*	*	*	3.6
IP	3.2	4.2	0.6	0.7	1.6	1.9	0.8	1.0	0.4	0.6	0.5	4.9

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from a year ago.

CONSUMER AND WHOLESALE PRICES IN MAJOR INDUSTRIAL COUNTRIES
(Percentage change from previous period 1/)

	1992	1993	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1994 JAN	1994 FEB	1994 MAR	1994 APR	Latest month from year ago 2/
JAPAN													
CPI	0.9	1.2	0.0	0.0	1.1	0.5	-0.4	0.2	0.1	0.1	0.4	0.0	0.8
WPI	-1.5	-3.3	-0.9	-0.5	-1.4	-1.0	-0.5	-0.3	0.1	-0.5	-0.2	NA	-2.9
WEST GERMANY													
CPI	3.7	3.7	0.9	1.8	1.0	0.4	0.5	1.4	0.9	0.3	0.2	0.2	3.1
WPI	-1.9	-0.3	-0.8	0.7	0.1	-0.6	-0.5	NA	0.6	0.5	NA	NA	0.3
FRANCE													
CPI	1.8	2.1	0.5	0.8	0.6	0.2	0.5	0.4	0.2	0.3	0.2	0.3	1.7
WPI	-2.1	-1.6	-2.3	0.0	-0.8	-0.3	-0.5	NA	*	*	*	*	-1.6
UNITED KINGDOM													
CPI	3.1	1.6	0.4	-0.7	1.6	0.3	0.3	0.1	-0.4	0.6	0.3	NA	2.3
WPI	3.1	3.8	0.4	1.3	1.7	0.4	0.3	0.8	0.3	0.2	0.1	NA	2.7
ITALY													
CPI	4.8	4.1	1.3	1.0	1.1	0.9	1.1	1.0	0.6	0.4	0.2	0.3	4.1
WPI	3.0	4.5	2.8	1.6	1.3	0.5	1.0	NA	0.5	0.4	NA	NA	4.0
CANADA													
CPI	1.8	1.8	0.4	0.7	0.2	0.4	0.5	-0.5	0.0	-0.8	-0.2	NA	0.2
WPI	3.3	2.9	1.2	1.2	-0.0	0.5	1.2	1.3	0.0	1.1	0.4	NA	3.6
UNITED STATES													
CPI (SA)	3.1	2.7	0.8	0.8	0.8	0.5	0.7	0.5	0.0	0.3	0.3	NA	2.6
WPI (SA)	1.6	0.2	0.3	0.6	0.6	-0.8	-0.2	0.6	0.2	0.5	0.2	NA	0.2

* Data not available on a monthly or quarterly basis.
1/ Yearly data are Q4 to Q4 percent change.
2/ For quarterly data, latest quarter from year ago.

TRADE AND CURRENT ACCOUNT BALANCES OF MAJOR INDUSTRIAL COUNTRIES 1/
(Billions of U.S. dollars, seasonally adjusted except where otherwise noted)

	1992	1993	1992 Q4	1993 Q1	1993 Q2	1993 Q3	1993 Q4	1994 Q1	1993 DEC	1994 JAN	1994 FEB	1994 MAR
JAPAN												
TRADE	107.3	119.6	28.6	29.7	29.9	29.5	30.5	31.3	11.1	10.9	10.5	9.9
CURRENT ACCOUNT	117.2	127.1	31.7	32.5	31.6	32.3	30.6	32.2	10.4	11.2	11.0	9.9
GERMANY												
TRADE (NSA)	21.4	36.4	5.0	5.9	7.9	8.1	14.4	NA	5.0	3.4	3.3	NA
CURRENT ACCOUNT (NSA)	-22.2	-21.3	-3.5	-4.2	-3.8	-9.9	-3.4	NA	-1.8	-1.5	-2.8	NA
FRANCE												
TRADE	5.6	16.9	1.3	2.5	3.9	5.0	5.5	NA	2.8	0.5	0.9	NA
CURRENT ACCOUNT	3.7	NA	2.9	0.4	1.7	4.0	NA	NA	*	*	*	*
UNITED KINGDOM												
TRADE	-23.5	-20.2	-6.6	-4.9	-5.0	-4.6	-5.7	NA	-2.3	-1.4	NA	NA
CURRENT ACCOUNT	-17.5	-16.0	-4.0	-4.6	-4.9	-2.7	-3.8	NA	*	*	*	*
ITALY												
TRADE	-10.5	20.8	-1.5	4.5	4.9	5.2	6.2	NA	1.3	NA	NA	NA
CURRENT ACCOUNT (NSA)	-28.0	7.0	-5.6	-3.1	2.0	3.6	4.5	NA	0.4	-0.8	NA	NA
CANADA												
TRADE	7.4	9.1	2.9	2.5	2.3	2.3	2.1	NA	0.4	0.8	0.6	NA
CURRENT ACCOUNT	-23.0	-19.6	-4.6	-5.2	-5.1	-4.7	-4.6	NA	*	*	*	*
UNITED STATES												
TRADE	-96.1	-132	-26.0	-29.3	-34.4	-36.0	-32.8	NA	-8.8	-11.3	-13.9	NA
CURRENT ACCOUNT	-66.4	-109	-23.7	-22.4	-27.2	-28.1	-31.5	NA	*	*	*	*

* Data not available on a monthly or quarterly basis.
1/ The current account includes goods, services, and private and official transfers.

JAPANESE ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1993		1994	1993	1994		
	Q3	Q4	Q1	Dec.	Jan.	Feb	Mar
Machinery Orders	2.3	-5.9	--	11.2	4.8	-7.3	--
New Car Registrations	1.6	-3.3	8.5	-0.6	6.4	-4.0	11.9
Job Offers Ratio*	0.71	0.66	0.66	0.65	0.67	0.65	0.66
Index Leading Ind.*	42.9	35.8	--	38.5	63.6	45.0	--
Business Sentiment**	-51	-56	-56	--	--	--	--

* Level of indicator.
** Percent of manufacturing firms having a favorable view of business conditions minus those with an unfavorable outlook.

On April 8, Prime Minister Morihiro Hosokawa resigned, taking responsibility for political turmoil associated with charges that he received improper personal loans. On April 25, Deputy Premier and Foreign Minister Tsutomu Hata became prime minister. Immediately thereafter, the Socialists pulled out of the coalition government in response to the formation of a new parliamentary bloc by conservatives in the coalition. Hata, who previously has served both as farm minister and finance minister, is expected to continue the policies of the Hosokawa Administration. However, he presides over a weakened minority government that will face serious difficulties implementing economic stimulus and reform measures.

In western Germany, monthly indicators for the first quarter were mixed with more forward-looking indicators pointing towards recovery but output measures remaining weak. Industrial production (s.a.) in the first quarter dropped 0.5 percent; however, commentary accompanying the March data release indicated that it would be revised upward. In April, unemployment (s.a.) edged up to 9.4 percent. Signs of recovery were apparent in retail sales (s.a.), which rose 1.5 percent in the first quarter from their fourth-quarter level, and stronger manufacturing orders (largely from abroad). Survey data show that business confidence has improved and that inventories have returned to levels considered close to normal In eastern Germany, industrial production (n.s.a.) in February was 16.4 percent above its year-earlier level, due to strong increases in the manufacturing and construction sectors.

WESTERN GERMAN ECONOMIC INDICATORS
(percent change from previous period except where noted, s.a.)

	1993			1994	1994		
	Q2	Q3	Q4	Q1	Feb.	Mar.	Apr.
Manufacturing Orders	0.3	1.9	-1.1	2.3	3.3	2.9	--
Capacity Utilization	-1.0	-0.6	-0.1	1.7	--	--	--
Unemployment Rate (%)	8.0	8.5	9.0	9.2	9.2	9.3	9.4
Production Plans* (%)	-21.7	-15.0	-8.0	--	4.0	--	--

* Percent of mining and manufacturing firms that expect to increase production minus those who expect to decrease it.

Consumer prices in western Germany (n.s.a.) in April rose 3.1 percent from their year-earlier level, down slightly from the previous month. The slowing of consumer price inflation is partly due to relatively flat input prices. In March, producer prices (n.s.a.) increased 0.3 percent from their year-earlier level, while import prices (n.s.a.) were 0.6 percent below their year-earlier level. Wage inflation (n.s.a.) slowed to 5 percent (year-over-year) in January, compared with 9 percent one year ago.

The current account deficit (n.s.a.) widened in February to $2.8 billion; exports have been about flat over the past year, while imports have fallen more than 11 percent since February 1993.

German M3 increased 15.4 percent (s.a.a.r.) through March relative to the fourth quarter of last year. The magnitude of this increase means that it is unlikely that M3 will drop back into its target range of 4 to 6 percent before late in the year. The Bundesbank identified several special economic and statistical factors that have inflated M3 growth: a sizable reflow of investment funds from Luxembourg to Germany due to changes in the tax treatment of interest income; uncertainty about the outlook for bond and stock markets; a change in the tax treatment of mortgages on older homes that has generated an increased demand for mortgages; and the Bundesbank's method of calculating M3 growth that tends to exaggerate the effect of a large change early in the calendar year. These special factors explain why rapid M3 growth has not prevented the Bundesbank from lowering official rates. On May 11, it cut the discount and Lombard rates by 50 basis points, its second cut in official rates in a month, citing improved prospects for lower inflation as the reason.

In France, indicators for the first quarter point to continued recovery in economic activity. Industrial production (s.a.) rose 0.6 in February after registering a weather-related decline of 0.2 percent in January. Consumption of manufactured products (s.a.), roughly one-third of total consumption, rose 0.6 percent in the first quarter. These increases in production and consumption were partly due to a subsidy of $1,000 equivalent for the purchase of new cars that replace those 10 years old or older. The unemployment rate (s.a.) in March remained stable at 12.2 percent for the fourth consecutive month. Survey data for April show continued improvement in business and consumer confidence and that investors expect to increase investment this year. Data for March show that domestic and foreign orders increased and that inventories returned to normal levels.

The consumer price index (n.s.a.) in April was 1.7 percent above its year-earlier level, about unchanged from the increase in the first-quarter average. A slowing of wage inflation has helped keep inflation low. The January wage survey showed that hourly wages (n.s.a.) in the fourth quarter were 2.4 percent above their year-earlier level, down from 2.8 percent in the third quarter.

The trade surplus (s.a.) increased in February to $0.9 billion from $0.5 billion in January due largely to lower energy imports.

In the United Kingdom, economic recovery appears to be continuing at a modest pace. Preliminary real GDP data (s.a.a.r.) for the first quarter show an increase of 2.8 percent. However, recently released March industrial production (s.a.) data that show a decline of 0.6 percent suggest that this GDP estimate may be revised down. The average unemployment rate (s.a.) in the first quarter edged down to 9.8 percent. Indicators of business and consumer confidence worsened in April after improving in the first quarter.

In March, retail prices (n.s.a.) were 2.3 percent above year-earlier levels. Excluding mortgage interest rates, the increase was 2.4 percent. Producers' input prices (n.s.a.) in March were below their year-earlier level but remained 7.6 percent above their level just prior to sterling's devaluation in August 1992. Annual earnings inflation (s.a.) slowed in February to 3.5 percent, up from the low of 3 percent recorded late last year, but significantly below the 5.8 percent increase registered in August 1992.

In January, the trade deficit (s.a.) was $1.4 billion, down from $2.3 billion in December. Exports rose 4.7 percent on the strength of exports to the EC, while imports fell 1.6 percent.

On April 13, Chancellor Clarke published the minutes of the monthly monetary meetings between the Chancellor and the Governor of the Bank of England for the first three months of this year. Clarke stated that in the future minutes would be published with a six-week lag. Previously, minutes were released with a 30-year lag. This policy change occurred in response to the House of Commons' Treasury and Civil Service Committee report on the role of the Bank of England that recommended a more timely publication of these minutes.

On May 5, the Conservative Party suffered its worst defeat this century in local council elections. It received only 27 percent of the vote compared with 41 percent received by the Labor Party.

In Italy, available indicators for the first quarter suggest that the recovery apparent in recently released fourth quarter GDP data continued. Real GDP (s.a.a.r.) rose 3.2 percent. In the first quarter, consumer confidence orders for machine tools rose sharply. Unemployment remained constant at 11.3 percent.

Inflationary pressures remain subdued. Consumer prices in April were 4.1 percent above year-earlier levels, down slightly from 4.2 percent in March.

In the general elections held in late March, the Freedom Alliance, a coalition of three right-wing parties, claimed an absolute majority in the 630-seat Chamber of Deputies, the lower house of Parliament. In the Senate, the Freedom Alliance fell 3 seats short of an absolute majority. On April 28, President Scalfaro asked Silvio Berlusconi, the leader of Forza Italia (one of the parties in the Freedom Alliance) to form the next government. On May 10, Lamberto Dini, Director General of the Bank of Italy, was chosen to be Finance Minister. This appointment suggests that the new government is likely to maintain the budget deficit reduction policies of the outgoing Ciampi government. Italy's large budget deficit will make it difficult for the Freedom Alliance to fulfill its promise to reduce taxes.

In Canada, indicators suggest that growth continued at a moderate pace in the first quarter. In January and February, industrial production (s.a.) was virtually unchanged on balance while the two-month average of GDP at factor cost (s.a.) was 0.6 percent above its fourth-quarter average. Retail sales (s.a.)

through February increased 2.1 percent relative to their fourth-quarter average. Indexes of business and consumer confidence surged in the first quarter. Data from the manufacturing survey has been less encouraging: shipments and new orders both declined on average in January and February. The unemployment rate (s.a.) rose to 11 percent in April from 10.6 percent in March. This increase was mostly due to a sharp increase in labor force participation. Total employment was little changed in April after rising in the first quarter to its highest level since 1990.

A large cut in cigarette taxes in February was responsible for a 0.8 percent decline in the consumer price index (n.s.a.) in February, and is expected to keep measured inflation below 1 percent for 1994. Excluding cigarette prices, the index for the first quarter was 1.4 percent above its year-earlier level.

Economic Situation in Other Countries

The assassination of the government party's presidential candidate on March 23 led to increased political uncertainty in Mexico and severely disrupted financial markets. The peso fell to the lower limit of its intervention band,

. The Bank also increased its offerings of dollar-denominated securities, and lowered its offerings of peso-denominated securities, at its weekly auctions. By May 10, there was a modest rebound in the peso. The Mexico City stock market index, which had fallen sharply in the aftermath of the assassination, has also staged a partial recovery.

In Brazil, economic activity appears to have moderated in the first quarter of 1994, while inflation continues to be very high. The first stage of Brazil's commercial bank debt restructuring was executed in April. Cuts in payroll taxes and capital goods duties buoyed industrial production in Argentina.

The prospects for monetary and fiscal reform in Russia appear to have improved somewhat with the release of the second tranche of IMF financing. Economic growth remained strong in Korea and Taiwan, but China's very rapid growth slowed slightly.

<u>Individual country notes</u>. In <u>Mexico</u> a financial crisis erupted following the assassination on March 23 of the government party presidential candidate. For four weeks thereafter, the peso hugged the lower limit of its fluctuation band against the dollar.

. Interest rates on peso-denominated securities, which ranged between 9.3 percent for 28-day bills and 11.3 percent for 364-day bills on March 23, surged at three of the four ensuing weekly auctions. At the April 20 auction, the yield curve had become inverted, and rates ranged between 18 percent for 28-day bills and 16.8 percent for 364-day bills. The Mexico City stock market index was about 23 percent lower on April 20 than on March 23.

On April 22, the Bank of Mexico announced that, at the April 27 auction, it would offer nearly seven times the amount of dollar-denominated securities offered in previous auctions and less than half the amount of peso-denominated securities offered in recent auctions. The markets greeted these changes favorably. The Mexican markets were further buoyed by news that talks with the Chiapas rebels, suspended in March, would resume soon and by the joint statement of April 26 by the Finance Ministers and Central Bank Governors of Canada, Mexico, and the United States announcing the establishment of a permanent trilateral foreign exchange swap facility in the framework of the newly created North American Financial Group. In late April, the peso appreciated by 3 percent against the dollar, the Mexico City stock market index rose 19 percent, and interest rates on peso-denominated securities eased.

However, these movements were partially reversed in early May, leading the Bank of Mexico to increase further its offer of dollar-denominated securities at the May 10 auction and to reduce its offer of peso-denominated securities even more. At this auction the Bank sold $1 billion of dollar-denominated securities at rates ranging from 8.17 percent for 91-day paper to 8.42 percent for 364-day paper, compared with a range of 6.6 to 6.7 percent on April 20. The Bank also sold 500 million pesos ($150 million) of peso-denominated bills in only one maturity (28 days) at a rate of 16 percent, 198 basis points lower than on April 20. On May 10, the peso was 1.7 percent above the lower limit of its fluctuation band and the Mexico City stock market index was 13 percent above its April 20 low.

In Brazil, the trade surplus for the first quarter of 1994 was $2.7 billion, compared with a trade surplus of $4.1 billion in the first quarter of 1993. Exports declined by 4 percent, while imports grew by 18 percent. The fall in the trade surplus is attributed to continued real appreciation of the cruzeiro and to continued strong internal demand. However, anecdotal evidence indicates that economic growth has slowed slightly in the first quarter of the year from the 5 percent growth rate recorded in 1993.

Monthly inflation continues to be in the 40-45 percent range in recent months. The government has been maintaining that it will enact a currency reform that would include new rules limiting the central bank's ability to finance the deficits of the treasury. Nevertheless, Congress's failure in early May to muster the two-thirds majority needed to open the economy to foreign capital indicates that the political will needed to enact economic reforms is still lacking.

In mid-April, Brazil and creditor banks executed the first stage of Brazil's $35 billion commercial bank debt restructuring agreement. Because Brazil did not qualify for an IMF program, it purchased the 30-year zero coupon U.S. Treasury bonds needed for collateral from its own reserves. According to official estimates, official reserves were $35.6 billion at end-February.

In Argentina, cuts in payroll taxes and capital goods duties have stimulated higher investment and productivity in manufacturing. Industrial production in 1993 was about 6 percent higher than a year earlier, and industrial exports during the first two months of 1994 were up 28 percent compared with the year-earlier period. However, total merchandise exports grew at a more moderate rate of 4.4 percent during January and February from year-earlier periods, mainly due to weak primary commodity prices and a poor grain harvest. Meanwhile, strong demand for capital goods and automobile parts generated a 55 percent increase in merchandise imports, resulting in a trade deficit of nearly $900 million during the first two months of 1994, compared with a small trade surplus during the year-earlier period. The consumer price index rose by 4 percent during the twelve months ending in April.

Economic activity in China appears to have slowed slightly in the first quarter of 1994 amid tight restrictions on new credit. Real GDP was 12.7 percent higher than the same period a year ago, after growth of 13.4 percent in 1993. Industrial production was 18.6 percent higher, compared with 24 percent growth in 1993. Much of the apparent slowdown was in state-enterprise output, which grew only 2.2 percent in the first quarter of 1994. Half of the state enterprises reported losses in the first quarter. Inflation remains high. Retail prices were 20 percent higher than in the first quarter of last year; urban prices in March were 25 percent higher than a year earlier. China's first-quarter trade deficit was $1.3 billion. Exports rose 19 percent, while imports rose 18 percent.

In early April, the authorities established a national interbank foreign exchange market. The new regulations appear, however, to segment the foreign exchange market into separate markets for domestic enterprises and foreign-funded enterprises. Foreign-funded enterprises are excluded from the new interbank market, and must buy foreign exchange in the existing swap centers. U.S. bankers in China have argued that the purpose of the new system is to force foreign-invested enterprises to balance their foreign exchange receipts and expenditures. Both the IMF and the U.S. Treasury have expressed concern that the new system lacks transparency.

In mid-April, the State Development Bank, the first of three planned policy-lending banks, began operations. In early May, China announced the establishment of a second policy-lending bank, the Export and Import Bank of China. The third bank, the Agricultural Development Bank, has not yet been established. The three banks are to take over the quasi-fiscal policy lending currently done by the banking system.

<u>Taiwan</u> recorded a trade surplus of $590 million in the first four months of 1994, as exports grew strongly in April. Overall, exports were 2.3 percent higher than in the first four months of last year, while imports were 7.2 percent higher. Industrial production in March was 6.3 percent higher than a year earlier, and consumer prices in April were 3.2 percent higher. In early March, Taiwan raised the ceiling on foreign investment by foreign institutions in the stock market from $5 billion to $7.5 billion.

This has led to a flood of applications by foreign institutions; approved and pending applications by foreign institutions already exceed the new limit. Effective April 1, Taiwan abolished reserve requirements for foreign currency deposits at commercial banks, in an effort to reduce pressure for appreciation of the Taiwanese dollar.

In Korea economic activity remains very robust. The industrial production index for manufacturing increased by 10.2 percent in 1994-Q1 from a year earlier, with particularly rapid growth in electronics and automobile production. However, concern about inflation has led to a somewhat less accommodating monetary policy since mid-February. The consumer price index rose by 5.9 percent in April from a year earlier. A strong increase in investment demand has induced a substantial rise in imports, especially of capital goods. Merchandise imports rose by 13.6 percent in 1994-Q1 from a year earlier, while exports grew only 6.8 percent. This contributed to a widening of the first-quarter current account deficit to $2.5 billion from $700 million a year earlier.

In Russia, the prospects for monetary and fiscal reform appear to have improved somewhat. On April 20, the IMF Executive Board approved the release of the second $1.5 billion tranche of Russia's Systemic Transformation Facility (STF). In the supporting agreement, the Russian government committed to reduce monthly inflation to 7 percent by the end of the year, and limit the 1994 budget deficit to about 7 percent of GDP.

Industrial production during the first quarter of 1994 was 25 percent lower than in the first quarter of 1993, and real GDP reportedly fell 17 percent below its year-earlier level. The increased cost of fuel and other raw materials, as well as mounting inter-enterprise arrears, has restricted economic activity and led to plant closings. Monthly inflation during February, March, and April averaged only 9.4 percent, compared with over 20 percent a month in 1993.

During the last two months, the ruble has depreciated against the dollar at a steady rate of about 1 percent per week. On May 11, the ruble-dollar exchange stood at 1865.